DOCUMENT RESUME

ED 399 570 CS 509 271

TITLE What Should Be the Policy of the United States Government toward the People's Republic of China. National Debate Topic for High Schools, 1995-96. 104th Congress, 1st Session.
INSTITUTION Library of Congress, Washington, D.C. Congressional Research Service.
REPORT NO Senate-Doc-104-3
PUB DATE 95
NOTE 829p.; Contains many pages of small type.
PUB TYPE Information Analyses (070) -- Reference Materials - Bibliographies (131)

EDRS PRICE MF05/PC34 Plus Postage.
DESCRIPTORS Annotated Bibliographies; Civil Liberties; *Debate; *Federal Government; *Financial Policy; Foreign Countries; *Foreign Policy; *High Schools; High School Students; Information Sources; Political Issues
IDENTIFIERS *China; *National Debate Topic

ABSTRACT

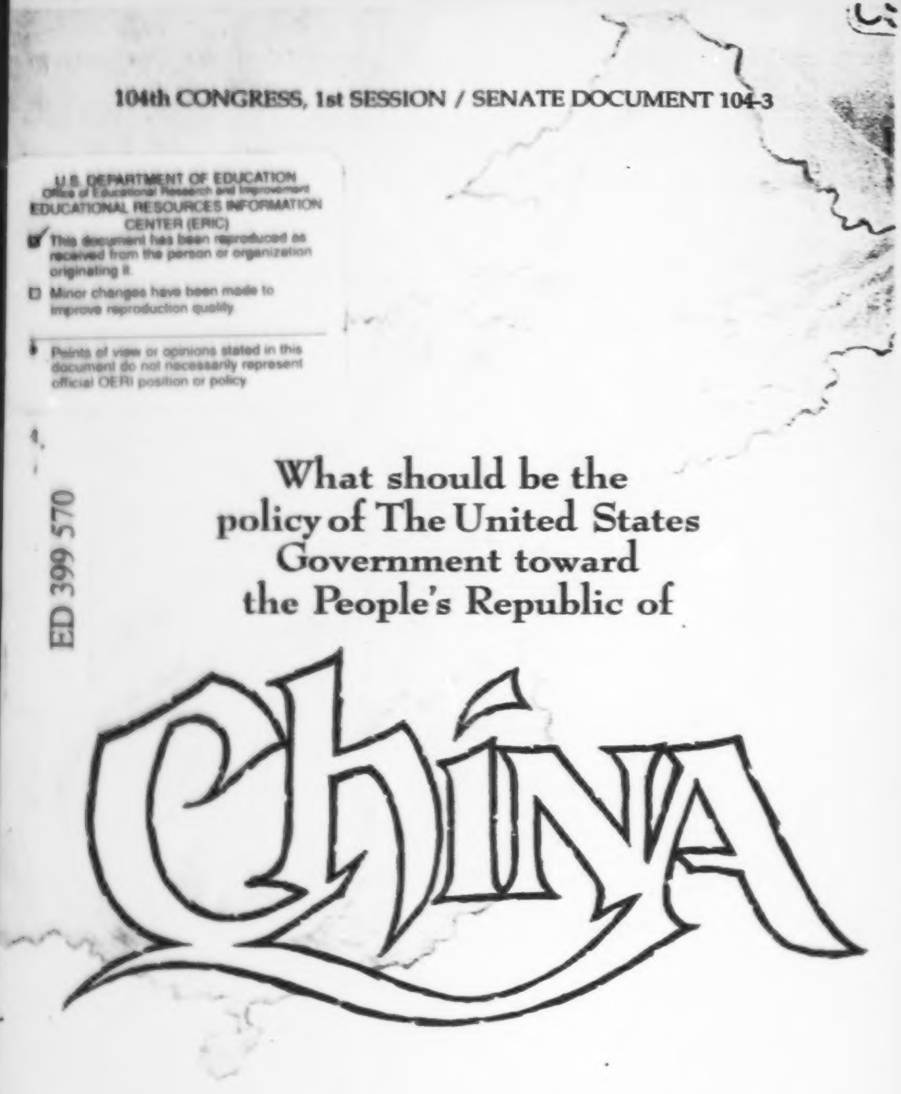
Sampling the wide spectrum of opinions reflected in the current literature on the topic, this book presents a compilation of materials and bibliographic references designed to assist high school debaters in researching the topic of whether the United States government should substantially change its policy (foreign and economic) toward the People's Republic of China. Materials in the book include "China's Changing Conditions, Issue Brief" (Robert G. Sutter and others); "China after Deng Xiaoping--Implications for the United States" (Robert G. Sutter and James Casey Sullivan); "China's White Paper on Human Rights" (Tao-tai Hsia and Wendy I. Zeldin); "Hong Kong's Political Transition: Implications for U.S. Interests" (James Casey Sullivan and Robert G. Sutter); "National Interest and U.S. Foreign Policy" (Mark M. Lowenthal); "China in World Affairs--U.S. Policy Choices" (Robert G. Sutter); "United States Security Strategy for the East Asia-Pacific Region"; "China-U.S. Trade Issues" (Wayne M. Morrison); "U.S. Economic, Trade, and Financial Relations with Asia: A Statistical Overview" (James K. Jackson and Wayne M. Morrison); "China and the General Agreement on Tariffs and Trade" (George D. Holliday); "Memorandum of Understanding between the Government of the People's Republic of China and the Government of the United States of America on the Protection of Intellectual Property"; "China's Transition to the Market" (John P. Hardt); "Implementation of the 1992 Prison Labor Memorandum of Understanding"; and "Chinese Forced Labor Exports to the United States." An approximately 1,000-item annotated bibliography, a guide to information sources, and a list of available government publications on the topic are attached. (RS)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

104th CONGRESS, 1st SESSION / SENATE DOCUMENT 104-3

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy

ED 399 570



What should be the policy of The United States Government toward the People's Republic of CHINA

NATIONAL DEBATE TOPIC FOR HIGH SCHOOLS, 1995-96

Persuant to 44 United States Code, Section 1333

CS 509271

Compiled by the Congressional Research Service
Library of Congress

BEST COPY AVAILABLE

104th CONGRESS, 1st SESSION / SENATE DOCUMENT 104-3

What should be the policy of The United States Government toward the People's Republic of CHINA

NATIONAL DEBATE TOPIC
FOR HIGH SCHOOLS, 1995-96

Persuant to 44 United States Code, Section 1333

Compiled by the Congressional Research Service
Library of Congress

U.S. Government Printing Office
Washington, DC 1995

Printed on recycled paper

44 U.S. CODE SECTION 1333

(a) The Librarian of Congress shall prepare compilations of pertinent excerpts, bibliographical references, and other appropriate materials relating to:

(1) the subject selected annually by the National University Extension Association as the national high school debate topics and

(2) the subject selected annually by the American Speech Association as the national college debate topic.

In preparing the compilations the Librarian shall include materials which in his judgment are representative of, and give equal emphasis to, the opposing points of view on the respective topics.

(b) The compilations on the high school debate topics shall be printed as Senate documents and the compilations on the college debate topics shall be printed as House of Representative documents, the cost of which shall be charged to the congressional allotment for printing and binding. Additional copies of such documents may be printed in the quantities and distributed in the manner as the Joint Committee on Printing directs.

(Pub. L. 90-620, Oct. 22, 1968, 82 Stat. 1270.)

CONTENTS

FOREWORD V

GENERAL MATERIALS 1

China's Changing Conditions, Issue Brief, by Robert G. Sutter, Shirley Kan, and Kerry Dumbaugh. Congressional Research Service. Updated Regularly 3

China After Deng Xiaoping–Implications for the United States, by Robert G. Sutter, With the Assistance of James Casey Sullivan. Congressional Research Service, 1995. 18

Chronology of Visit to the People's Republic of China, Public Papers of the Presidents of the United States: Richard Nixon, 1972. 46

Visit of Vice Premier Deng of China, Public Papers of the Presidents of the United States; Jimmy Carter, 1979. 65

Country Reports on Human Rights Practices For 1993, by China: Human Rights and MFN; Joint Hearing before the Subcommittees on Economic Policy, Trade and Environment; International Security, International Organizations and Human Rights; and Asia and the Pacific, Committee on Foreign Affairs, House of Representatives, 103rd Congress, 2nd session, 1994. 79

China's White Paper on Human Rights, by Tao-tai Hsia and Wendy I. Zeldin. Foreign Law Issue, Law Library, Library of Congress 96

Statement by Qian Qichen (China), Reprinted From Official Record. United Nations General Assembly. 49th Session, 8th Meeting 122

Taiwan: Recent Developments and U.S. Policy Choices; Issue brief, by Robert G. Sutter. Congressional Reference Service. 126

Hong Kong's Political Transition: Implications for U.S. Interests; Issue Brief, by James Casey Sullivan and Robert G. Sutter. Congressional Reference Service. 141

China. Reprinted from Conventional Arms Transfers to the Third World, 1986-1993, by Richard Grimmett. Congressional Research Service, 1994. 152

DEBATE PROPOSITION – RESOLVED:
THAT THE UNITED STATES GOVERNMENT SHOULD SUBSTANTIALLY CHANGE ITS FOREIGN POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA 153

National Interest and U.S. Foreign Policy, by Mark M. Lowenthal. Congressional Research Service, 1994. 155

Testimony for the Senate Foreign Relations Committee Asia and Pacific Subcommittee, by Winston Lord, Assistant Secretary East Asian and Pacifc Affairs, Department of State, 1995 164

China In World Affairs – U.S. Policy Choices, by Robert G. Sutter. Congressional Research Service, 1995. 175

China-U.S. Relations; Issue Brief, by Robert G. Sutter and Kerry Dumbaugh. Congressional Research Service, 1995. 196

BEST COPY AVAILABLE

China as a Security Concern in Asia: Perceptions, Assessment, and U.S. Options, by Robert G. Sutter and Shirley Kan. Congressional Research Service, 1994 211

Office of International Security Affairs, Department of Defense. United States Security Strategy for the East Asia-Pacific Region. Washington, Dept. of Defense, 1995. . . 241

Chinese Nuclear Weapons and Arms Control Policies Implications and Options for the United States, by Robert G. Sutter. Congressional Research Service, 1994. 275

DEBATE PROPOSITION – RESOLVED:
THAT THE UNITED STATES GOVERNMENT SHOULD SUBSTANTIALLY CHANGE ITS ECONOMIC POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA . . 299

China-U.S. Trade Issues; Issue Brief, by Wayne M. Morrison. Congressional Research Service, 1995. 301

Trade Policy in the 104th Congress. Coordinated by George D. Holliday, Economics Division. Congressional Research Service, 1995. 316

U.S. Economic, Trade, and Financial Relations With Asia: A Statistical Overview, by James K. Jackson and Wayne M. Morrison. Congressional Research Service, 1994. 392

China: Current U.S. Sanctions, by Kerry Dumbaugh, with the Assistance of James Casey Sullivan. Congressional Research Service, 1995. 422

China and the General Agreement on Tariffs and Trade, by George D. Holliday. Congressional Research Service, 1994. 433

Memorandum of Understanding Between the Government of the People's Republic of China and the Government of the United States of America on the Protection of Intellectual Property 455

The China-U.S. Trade Agreement on Intellectual Property Rights: Implications for China-U.S. Trade Relations, by Wayne M. Morrison. Congressional Research Service, 1995 . . 463

Implementation of Agreements on Market Access and Intellectual Property. U.S.-China Trade, Report to the Honorable Hank Brown, U.S. Senate. General Accounting Office, 1995. 469

China's Transition to the Market, by John P. Hardt. Congressional Research Service, 1992. 533

U.S. Government Policy Issues Affecting U.S. Business Activities in China. International Trade, Report to the Chairman, Committee on Governmental Affairs, and the Hon. Joseph I. Liebermann, U.S. Senate. General Accounting Office, 1994. 538

Implementation of the 1992 Prison Labor Memorandum of Understanding. U.S.-China Trade. Report to the Committee on Finance, U.S. Senate, and the Committee on Ways and Means, House of Representatives. General Accounting Office, 1995. 607

Chinese Forced Labor Exports to the United States. Reprinted from Joint Hearing before the Subcommittees on Economic Policy, Trade and Environment; International Security, International Organizations and Human Rights; and Asia and the Pacific, Committee on Foreign Affairs, House of Representatives, 1993. 627

United States and China Act of 1994. H.R. 4592, Statement of the American Forest & Paper Association (AF&PA) Hearing before the Subcommittee on Trade of the Committee on Ways and Means, House of Representatives, 103rd Congress, 2nd Session, 1994. . . 672

AN ANNOTATED BIBLIOGRAPHY ON THE 1995-1996 HIGH SCHOOL DEBATE TOPIC 683

A GUIDE TO INFORMATION SOURCES ON THE 1995-1996 HIGH SCHOOL DEBATE TOPIC 799

AVAILABLE GOVERNMENT PUBLICATIONS ON THE 1995-1996 HIGH SCHOOL DEBATE TOPIC 825

CRS
Congressional Research Service • The Library of Congress • Washington, D.C. 20540-7000

April 28, 1995

FOREWORD

The 1995-1996 high school debate topic is "China: What should be the policy of the United States government toward the People's Republic of China?" The two official debate propositions within this topic are:

RESOLVED: That the United States government should substantially change its foreign policy toward the People's Republic of China.

RESOLVED: That the United States government should substantially change its economic policy toward the People's Republic of China.

In compliance with 44 U.S. Code, section 1333, the Congressional Research Service of the Library of Congress prepared this compilation of materials and bibliographic references to assist high school debaters in researching the topic. In selecting items for this manual, the Congressional Research Service (CRS) has sampled the wide spectrum of opinions reflected in current literature on these questions. No preference for any policy is indicated by the selection or positioning of articles cited, nor is CRS disapproval of any policy or article to be inferred from its omission.

A research guide is included at the end of this volume; it is intended to help debaters identify further references and organizational resources on their own. Also included is a list of relevant publications that are available for purchase from the Superintendent of Documents, Government Printing Office. Some of the U.S. Government documents listed in the manual may be found in U.S. Government depository libraries, which can be identified by local public libraries. The Library of Congress cannot distribute copies of these or other materials to debaters.

The documents presented in this compilation were selected by Sherry B. Shapiro, Library Services Division, with assistance from Robert G. Sutter, Senior Specialist in International Politics, Office of Senior Specialists, and Wayne M. Morrison, Analyst in International Trade and Finance, Economics Division. Ms. Shapiro also prepared the bibliography and guide to information sources. Production was made possible by Lee Burwasser, Library Services Division. Thanks are extended to Kristin M. Vajs, Head, Subject Specialization Section, Library Services Division, and William G. Kaye of the CRS Review Office, for their review of this product.

Good luck to each debater in researching, preparing, and presenting arguments on this year's topic.

Daniel P. Mulhollan, Director
Congressional Research Service

GENERAL MATERIALS

China's Changing Conditions

SUMMARY

Congressional interest in the leadership change and economic transformation underway in China has grown substantially over the past two years. Leading congressional concerns focus on how economic conditions in China pose opportunities for U.S. enterprise and how the evolution of conditions in China foster U.S. security, economic, and political interests. Congressional concern with China grew in 1995 as a result of reports of the serious decline in the health of senior Chinese leader Deng Xiao-ping.

Present conditions in China include

- A vibrant but overheated *economy*. The economy seems poised to continue to grow substantially in the years ahead, although there are many major difficulties, including inflation, energy shortages, inadequate transportation, incomplete reform of state enterprises, and regional inequities in income, resources, and standards of living.

- A less divided central *political leadership*. Chinese leaders are less at odds than in the past over issues of policy (i.e. economic reform and political repression) but seem to face major uncertainty over how to reach decisions following the anticipated passing of senior leader Deng Xiaoping. Economic reforms have created serious political frictions between the central and local authorities.

- A *society* with apparently few strong advocates for the prevailing political system and with many segments resentful or anxious about significant aspects of government policy. The regime's ability to deal effectively with such societal discontent is markedly weaker than in the past, especially because of widespread corruption and cynicism among officials at all levels.

- A *military* more streamlined, professionally inclined, and less tied to local political interests than in the past. The People's Liberation Army remains the center's ultimate coercive lever against social discontent and resistant local authorities, and it could provide the margin of decision in the event of a serious political struggle for power among civilian leaders in Beijing.

- A *foreign policy* premised on cooperation with China's neighbors and important developed countries (e.g., the United States) as a key ingredient in the regime's economic modernization program -- the main determination of political success or failure of the Beijing government.

Possible outcomes and implications for U.S. interests vary. For example, increasingly effective political administration and reform with continued successful economic modernization would be generally compatible with U.S. interests in greater economic opportunity, foreign policy cooperation, and political liberalization in China. Alternatively, Chinese administration, economic vitality, and internal cohesion could degenerate, limiting U.S. economic opportunities, challenging U.S. interests in stability in East Asia, but also diminishing potential threats from a strong China. Finally, China could develop formidable economic power while retaining authoritarian political control, with China emerging as a world power less interested in accommodating U.S. interests than in opposing them.

Reprinted from China's Changing Conditions; Issue Brief; by Robert G. Sutter, Shirley Kan, and Kerry Dumbaugh. Updated Regularly. (CRS Issue Brief IB93114)

Congressional Research Service • The Library of Congress

BEST COPY AVAILABLE

MOST RECENT DEVELOPMENTS

Deng Xiaoping's daughter told the New York Times on Jan.12, 1995, that the Chinese leader's health had declined markedly in recent months. The disclosure was contrary to previous, more optimistic official assessments of Deng's health and was widely interpreted as designed to prepare international and domestic opinion for Deng's death in the near future.

Premier Li Peng reported to the National People's Congress on Mar. 5, 1995, that Beijing would focus in 1995 on cooling economic growth to an annual level of 8% to 9% from the level of 11.8% in 1994, and on bringing down inflation to a level of 15% a year from the level of 21.7% in 1994. The New York Times reported on March 28 that the Congress showed unusual signs of dissent on some issues, adding to other recent signals of leaders' jostling for power in the post-Deng Xiaoping era.

BACKGROUND AND ANALYSIS

Congressional Interest in China

After the Chinese government's crackdown on pro-democracy demonstrators around Beijing's Tiananmen square and other Chinese cities in June 1989, Congress remained keenly interested in U.S. policy toward China. For several years, a bitter U.S. policy debate flared over whether to legislate conditions on U.S. most-favored nation (MFN) tariff treatment for Chinese imports. The Clinton Administration in mid-1993 reached a short-term compromise on the MFN issue that said human rights conditions in China would have a bearing on future U.S. MFN treatment for Chinese imports but avoided much more stringent legislated conditions advocated by some U.S. lawmakers. The administration pledged to pursue U.S. concerns over Chinese arms proliferation, trade, and other sensitive practices through channels separate from MFN. It subsequently resumed high-level official contacts, including U.S. and Chinese military representatives. In 1994 the President decided to grant China MFN tariff treatment despite continued poor human rights conditions. While some in Congress and the media voiced dissatisfaction with the decision on MFN and other aspects of China policy, the Administration's actions were supported by a majority vote in the House on Aug. 9, 1994.

At the same time, congressional Members have been showing much greater interest in assessing for themselves the conditions in China. Congressional interest in China's vibrant economy has been particularly acute.

China in Transition

The communist government in Beijing is now seen to have survived the immediate fallout of the Tiananmen incident better than some American observers had expected. But the regime's political future has remained in doubt. Many anticipate a struggle for power to follow the passing of senior leader Deng Xiaoping, 90 years old, with considerable uncertainty regarding how stable a future regime likely will be. This issue brief highlights recent economic, political, social, military, and foreign policy trends in

China, shows how events could lead to alternative outcomes for China, and reviews possible implications for U.S. interests.

Changing Conditions

Economic Development

Economic modernization remains a fundamental determinant of the future of China. Post-Mao leaders have recognized that their hold on power rests heavily on their ability to achieve concrete economic success and to make life materially better for the vast majority of the Chinese people. They are aware that they have little of Mao's prestige as a successful revolutionary and nationalist leader, and that the hold of communist ideology on the minds of the Chinese people is a thing of the past. Performance is seen as what counts, and economic performance is the linchpin of the continued political legitimacy of the communist leaders in China.

Bad statistical reporting notwithstanding, Maoist China had quite respectable (over 8% annually) rates of economic growth, on average. It achieved much in bringing China from its largely agrarian roots and produced an impressive array of industrial and technological establishments. In the course of these efforts, however, tens of millions lost their lives. Waste and inefficiency reached a point in the late 1970s that a consensus was reached among post-Mao leaders on the need to move away from state-controlled development and to open China more to the outside world. What followed was basically a pragmatic, trial-and-error approach to building China into a more modern and efficient market-centered economic power.

Efforts focused first on rejuvenating the stagnant rural economy, resulting in several years of rapid growth which, by the mid-1980s, had doubled the income of the average farmer. Dominated by large state-controlled enterprises, the urban economy posed a more difficult management problem. Nonetheless, progress in the direction of greater decentralization and reliance on market forces has been evident since the 1980s. Chinese officials now claim that roughly 80% of commodities in China are distributed through market channels at prices largely set by market forces.

Reliance on decentralized decision-making -- a feature of economic reform efforts -- has given local authorities a greater say in economic matters. Prior to the reform, economic policies were largely inflexible and dictated from Beijing or from provincial capitals. Reforms have given local officials greater leeway to adapt policies and implementation to fit their conditions.

This combination of decisionmaking autonomy and entrepreneurial incentives has been a key to the success of the economic reform effort. Investment trading connections and management expertise from Hong Kong, Taiwan, and other overseas Chinese communities also has been a major factor. Since the early 1980s, China's economy has grown at an average of nearly 9% a year in real terms. Living standards for much of the Chinese population have improved steadily over the past decade and a half, and consumer goods and food supplies are abundant throughout much of the country.

Beijing's trial and error approach to economic reforms has not been without significant drawbacks. For instance:

- In many cases, the regime has delayed the hardest reform steps -- such as closing money-losing state factories or trimming surplus workers from state enterprise payrolls -- out of fear of social unrest.

- Reforms have widened the gap between rich and poor regions of the country.

- Reforms notwithstanding, substantial bureaucratic interference in the market survives. Local officials still distort market economic development, create new layers of red tape, and occasionally erect interprovincial trade barriers.

- Local decisionmaking authority has been accompanied by rising levels of corruption.

- Despite substantial reform over the past decade and a half, the regime still has problems in tuning China's economy to achieve stable long-term growth. Economic cycles in China tend to be severe. To curb economic overheating, Beijing must step in with blunt measures -- such as cutting off new lending -- when inflation and other unwanted side-effects emerge.

In the late 1970s and 1980s, there was strong debate from often widely varied perspectives in the Chinese leadership on how to handle contradictions, bottlenecks, dislocations, and other consequences flowing from China's economic development and reform. Today, the leadership appears more united on how to handle these problems.

In 1992, Beijing registered a booming 12.8% growth rate. The boom continued in 1993 at a rate of 13.4%. Growth in 1994 was 11.8%. With such rapid growth came dislocations and renewed inflation. Inflation reached 21.7% in 1994. Some key sectors became starved for cash -- primarily because funds were channeled into higher profit and speculative ventures. In rural areas, cash shortages forced grain stations to pay many farmers in IOUs for their crops. Some key infrastructure projects and enterprises could not obtain needed funds.

To deal with the inflation, dislocation, and other consequences of overheating, Beijing decided in mid-1993 to strengthen earlier measures to cool the economy. Under the direction of Vice Premier Zhu Rongji, a 16-point plan was launched in July. It included administrative measures -- ordering localities to stop constructing new development zones and ordering government banks to recall inappropriate loans.

The cooling plan proved to be not as sweeping and Draconian as past government efforts to curb inflation during previous "boom-bust" cycles associated with Chinese reform. Beijing still wants to see economic growth at a more sustainable, less disruptive level of around 9% a year. Its main problem reportedly comes from local officials bent on pursuing entrepreneurial endeavors with sources of capital outside central control. Stern government measures have brought these enterprises into line in the past, but at the expense of overall growth and needed reforms in many inefficient parts of the economy.

At a Communist Party plenum on Nov. 11-14, 1993, it was decided to push forward with greater growth and reform and moderate the earlier measures to dampen growth and inflation. Analysts warned that this approach could lead to serious overheating and dislocations caused by such rapid growth.

Beijing attempted with mixed results to remedy some of the negative consequences of rapid growth while continuing to move the economy toward greater market reform. In particular, tax and banking reforms gave the more cautious central authorities more control over the sometimes irresponsible growth policies of local officials. Beijing also endeavored to meet the needs of rural residents for better terms of trade -- needs that had worsened rural/urban differences in recent years. Heightened concern over inflation dominated economic policy in the latter part of 1994 and in 1995.

On balance, the economic fundamentals in the Chinese economy are bullish. China has the natural resources, the human capital, and access to foreign technology and capital to sustain growth rates of the past decade into the next century. It is also at the geographic center of the world's most dynamic economic region. But China continues to face major economic impediments, including inadequate transportation and electric power systems, large population growth, an emerging business law system, and inadequate fiscal control mechanisms.

Political Trends

Political problems, especially perceived differences among the leadership elites in Beijing, have traditionally been given pride of place in Western analyses of contemporary China. During the Maoist period, Chinese leadership differences often were wide ranging and had broad implications for China's internal and foreign policies.

Following the death of Mao and the rise of more pragmatic Chinese leaders bent on economic modernization and reform in the late 1970s, debate among Chinese leadership elites focused more on the dynamics of nation building. Some groups favored the central government's retention of considerable control over the economic development process. This strategy would result in slower economic growth in the interest of avoiding socially disruptive developments. Others favored greater reduction in state control in order to spur economic growth. They argued that more rapid economic growth over the long run would help Chinese authorities deal more effectively with social and other dislocations stemming from economic and other changes.

Over time, the range of this debate over nation building and economic reform has narrowed. Indeed, the results of the Communist Party's 14th Congress last fall and subsequent party and government meetings have reflected an unusual degree of leadership consensus on how to carry out reform. The new consensus supported the more activist approach to economic reform noted above. It also reflected caution over political change seen in Chinese decisions since the crackdown on political dissent in 1989.

All of the above does not imply that Chinese leaders will remain unified in the period ahead. In particular, it remains to be seen exactly how central leaders will handle their continuing differences once the elder statesmen headed by Deng Xiaoping pass away. Nervousness over Deng's failing health and potential dissident activity caused Chinese leaders to reinforce political controls in 1994-1995. Perceived signs of leaders' jostling for power in 1995 included an unusual spate of attacks on high-level administrative corruption, overt dissent in China's annual session of the National People's Congress in March 1995, and prominent activity by or on behalf of senior leaders thought to have been retired from politics.

Local Politics. Economic reforms have been accompanied by a large-scale devolution of authority from the central party and government organs to provincial and other local authorities who are taking the lead in promoting flexible schemes to foster economic growth. There is a danger that local authorities will become so influential as to undermine and eventually challenge central authority.

Provincial authorities have been given greater control over personnel appointments in their jurisdictions; greater authority to approve imports, exports, and foreign investment projects; greater access to tax revenues and to the profits of state enterprises; and greater power over domestic investment decisions. Provincial leaders, always able to lobby the center on matters of policy and resource allocation, are increasingly able to evade or even defy decisions with which they disagree.

The decentralization of political power in China recently has been a disorderly process. It poses serious difficulties for Beijing leaders trying to cool down the currently overheated Chinese economy. Yet it is easy to exaggerate the implications for China's future. In particular, prospects for the political fragmentation of China -- often cited in Western press reporting and some China experts' analysis about China -- appear fairly remote. The central government still controls the allocation of economic resources that are critical to most of the country's provinces. The Party's central personnel apparatus appoints the top officials at the provincial level, and central leaders still control the People's Liberation Army and the Public Security apparatus. Alongside these political factors for unity must be placed the emergence of an economic system that is more highly integrated nationally than ever before and the popular nationalistic ideal of China as a nation-state.

Social Trends

A focal point of analytical concern in the West recently has been the nature of regime-society relations in China. If there is going to be a big change in direction in Chinese policy and practice, many analysts believe, it will be ignited by friction between the regime's injunctions and conflicting trends in society. Exacerbating this is widespread discontent with growing official corruption.

There has been considerable evidence of discontent in both rural and urban areas. Many city-dwelling intellectuals, workers, and others were thought to have been seriously alienated from government authority following the repression of the Tiananmen demonstrations of 1989. Urban dwellers also contain the largest groups in society whose benefits are being fundamentally challenged by the economic reform policies. In the countryside, the terms of trade and government procurement practices for agricultural goods have taken a disadvantageous turn for farmers after the high growth in peasant income fostered by government policies in the late 1970s and early 1980s. Chinese and Western presses report that local officials responsible for purchasing grain and other mandated crops have sometimes used their allocations of cash to speculate in real estate or local enterprises. They have provided peasants with "IOUs" for their crops -- a practice that has set off a number of peasant demonstrations and riots. In August 1994, the Chinese press said that in 1993 there were 830 violent rural incidents involving more that 500 people each. In all, a total of 8,200 people were injured or killed.

In the past, the center could endeavor to deal with such problems through party channels, to weed out corrupt or abusive local officials in order to ensure continued effective government. Current conditions in China make such an approach less likely to succeed. Reformers in Beijing are following policies that tacitly endorse the widespread entrepreneurship shown by local officials. The scope of corruption and misuse of funds has reportedly become so widespread that there may not be enough untainted cadre or local officials uninvolved in these practices to replace or sanction the errant local cadre.

Behind this state of affairs rests a widespread cynical view of power and politics in China. In the past, the Marxist-Leninist vision had created an important incentive to motivate party-government cadre to ensure their loyalty to central discipline. Today that ideology is widely viewed as bankrupt and has often been replaced by a more self-serving mentality. Against this backdrop, Chinese officials appeared nervous about social order and clamped down on political dissent in Beijing and other cities around the time of the fifth anniversary of the 1989 democracy movement.

Military Trends

The People's Liberation Army (PLA) remains the ultimate instrument of central control over society and an important potential lever to be used by central authorities to impose their policies on possibly resisting localities. At the same time, the PLA remains important as a possible arbiter should central, civilian policymakers reach an impasse on sensitive decision points involving domestic or foreign policies. (For background, see CRS Report 91-731 F, *China's Military: Roles and Implications for U.S. Policy Toward China.*)

The Army today is leaner, led by more professionally competent officers, and less inclined to identify with local interests than in the past. The PLA has gone through a series of important changes and reforms under Deng Xiaoping's leadership. At the 14th party congress in 1992, PLA leaders thought to have strong political ambitions were demoted in ways designed to firm up the principle of civil control of the military and reduce the chances of the emergence of a rival base of power. The consensus on the policies of economic reform and political authoritarianism reached at the congress and later leadership meetings also suggests that the PLA leadership is prepared to adhere to and support current policies.

Analysts remain unwilling to rule out military involvement in politics. It seems likely that the death of Deng Xiaoping will remove the leader with the most civilian *and* military prestige and create a power vacuum that will be difficult to fill. Politically ambitious PLA leaders may try to revive their political fortunes if Deng were to pass away soon.

Foreign Policy

Chinese foreign policy changed markedly during the Maoist period (1949-1976). It moved from reliance on the USSR and strident opposition to the United States to a posture of strong opposition to both the U.S. and the USSR; and finally to an approach that relied strategically on reconciliation with the United States to deal with the danger posed by the Soviet threat. After Mao died, Chinese leaders emphasized domestic policies of development that required markedly increased economic interaction abroad and gave added impetus to Beijing's desire to sustain good relations with the West and to avoid disruptions around the periphery of China that would complicate the Chinese drive toward modernization. (For details, see CRS Report 92-747 S, *China in World Affairs -- Background, Prospects and Implications for the United States.*)

Major changes have taken place in the international power configuration since the late 1980s (e.g., the collapse of the Soviet Union and the socialist world system centered on it) and in China (e.g., the Tiananmen incident), but Chinese foreign policy continues to adhere to the general outlines established in the years after Mao's death. So long as China remains preoccupied with internal developments and international actors avoid initiatives seen as posing fundamental challenges to the Chinese leadership, Beijing seems likely to continue to follow the relatively narrow range of policies that it has adhered to in the past 15 years.

Several trends have characterized the Chinese approach to foreign affairs in the post-Mao period:

- Chinese leaders now face a security environment along China's periphery that is less likely to be disrupted by a major international power than at any time in the past.

- Regional security trends have been generally compatible with China's primary focus on internal economic modernization and political stability.

- Ideological and leadership disputes have had less importance for Chinese foreign policy than in the past.

- Reinforcing the more narrow range of foreign policy choices present among Chinese leaders, Chinese foreign policy has become somewhat more driven by economic relations with other countries, especially the Western-aligned, developed countries, than in the past.

There remains the distinct possibility that outside forces (e.g., the U.S., Russia, and Taiwan) may adopt policies that challenge fundamental Chinese interests and prompt a strongly assertive Chinese response. Thus, for example, Beijing has threatened repeatedly that it would resort to force to halt movement in Taiwan to declare the island an independent country. Some analysts also judge that Beijing may revert to a tough anti-U.S. posture if the United States withdraws MFN tariff treatment or escalates sanctions and other pressures on China's communist regime. Beijing also is especially anxious that the unstable political situation in North Korea after the death of Kim Il Sung on July 8, 1994, could lead to confrontation or conflict on the peninsula, possibly involving China. China has solidified its relationship with Russia, with annual two-way trade amounting to over $7 billion and Chinese purchases of Russian weapons amounting to $1 billion per year.

In October and November 1994, China's three top officials (President Jiang Zemin, Premier Li Peng, and National Peoples Congress Chairman Qiao Shi) conducted an unprecedented series of trips throughout the Pacific Rim. A highlight was Jiang's summit meeting with President Clinton in Indonesia on Nov. 14, 1994. Chinese officials interpreted the trips as designed to enhance China's already rapidly rising prominence throughout the Asia-Pacific region. They came against the background of press reports that Beijing was formulating a more Asia-centered foreign policy that relied less on the United States.

Outcomes and Implications

In the early years after the Tiananmen incident and subsequent collapse of communist regimes in Europe and elsewhere, it was common to hear that the communist regime in China was destined for collapse. Other observers warned of major retrogression in Chinese economic reforms, speculating that Beijing would feel compelled in the face of domestic and foreign pressure to revert to autarchic development policies of the Maoist past. These would reduce Chinese interdependence with other countries and substantially reduce China's incentive to avoid disruptive behavior in interaction with its neighbors and other world powers.

On balance, China's record in recent years has undercut the more extreme near-term predictions of collapse or retrogression. The regime in Beijing has presided over a period of unprecedented growth in the Chinese economy. This growth has not only benefitted many in China, but has come at a time of general lackluster growth in other parts of the world. The result has been a period of unprecedented international investment in and interaction with the Chinese economy. When combined with Beijing's careful avoidance of major controversy and generally accommodating posture in world affairs in recent years, the result has been to erode foreign sanctions and to enhance the international legitimacy of the Chinese leaders. The success of China's continued economic reform has undermined the arguments of those conservative Chinese leaders who might be inclined to press for a more autarchic development strategy and a more assertive, less accommodating posture in world affairs.

Nevertheless, analysis of key determinants shows a wide range of possible outcomes for China over the next few years. A positive scenario posits increasingly effective political administration and reform along with powerful economic modernization. Alternative outcomes are of two kinds. One sees a series of developments leading to degeneration of government effectiveness and authority with a number of negative effects on China's economic and social development. Another sees China developing formidable economic power while retaining strong authoritarian political control. This raises the possibility of an emerging Chinese economic and military superpower, less interested in accommodation with the outside world and unfettered by the political checks and balances that accompany less authoritarian political structures.

Transformation

In this scenario, the decentralization of political and economic decisionmaking power is managed effectively, enabling continued development and stability. China may adopt aspects of the federal political system, where the federal and state governments share revenue, power, and the tasks of governance. The revenue base and macroeconomic control of the central government would improve with an overhaul of the financial and taxation system. Price reform and return to private property stir greater rural and urban productivity. In the "best case," the political system might shift towards strengthening the legislature and increasing press freedom, though historical antecedents are few. In the long term, there is also room for reconciliation between the government and society as human rights are respected and rule of law is established to check arbitrary abuses of power. As economic power of the individual grows in China, the groundwork for a civil society and pluralistic politics is strengthened. Expansion of foreign trade and investment could lead to China's integration with the international community.

Implications for U.S. Interests. Continued economic modernization and emerging political reform would provide growing opportunities for U.S. investors and traders while holding promise of political change compatible with U.S. values. The expansion of foreign economic contacts could also lead to greater consensus and cooperation on strategic and foreign policy issues such as weapons non-proliferation, technology transfer, and regional security. A China focused on domestic stability and economic development might more often than not pursue policies to reduce regional conflicts important to the United States, including tensions on the Korean peninsula and territorial disputes in the South China Sea. Chinese observers and Western analysts often judge that Beijing under this scenario would still have greatest difficulty in meeting U.S. interests regarding political values, such as human rights. The political reforms accompanying economic changes are seen likely to be slow in developing.

Degeneration

Leadership in Beijing could engage in a prolonged power struggle that cripples the government. Delay in needed economic political reforms could produce greater decay, discontent, and difficult problems in the longer run. Major economic problems could grow, widening income gaps and fueling inflation, leading to rampant social instability. Corruption could swell to distort development and breed organized crime. Environmental problems, national disasters, infrastructure and energy bottlenecks, and fiscal crises could also lead to economic breakdown. Continued repression or brute coercion could contribute to social apathy or hostilities. Weak and divided civilian as well as military authorities could also induce separatist protests in areas like Xinjiang and Tibet, provoking ethnic conflicts. An insecure Chinese government would be unable to responsibly participate in the United Nations or credibly negotiate international agreements.

Implications for U.S. interests. Such economic and political conditions would substantially reduce trade and investment opportunities for the United States. The danger of possible large-scale Chinese refugee flows to neighboring countries and China's overall strategic weakness would pose major problems for the countries in the region and for U.S. interest in regional stability. U.S. interests in human rights and economic progress for the people of China would be substantially set back.

Some would argue that this negative transition for China might ultimately be in U.S. interests. It could so undermine the communist regime in China as to foster its overthrow, leading presumably to a more effective, representative regime or to two or more such regimes.

Economically Powerful Authoritarianism

This outcome assumes that authorities in China will be successful in modernizing the Chinese economy and use that success to shore up political authoritarian structures at home. Not only would this result in continued political repression and human rights abuses, China's economic power would be of such size and scale as to make most foreign powers unwilling to confront Beijing on most issues. Thus, Chinese leaders inclined to more assertive, nationalistic policies would have a freer hand to pursue their objectives, less concerned that Chinese trading partners would shun economic opportunities in China if Beijing violated international norms. The continued strong state direction of the massive Chinese economy would presumably give Beijing strong incentives to use its economic power to manipulate terms of trade and investment in critical economic sectors in international commerce.

Implications for U.S. Interests. Chinese economic prosperity would continue to attract important world attention, including that of the United States. Beijing would be in a position to mobilize this economic power against American interests. Chinese leaders would presumably continue the repressive authoritarian measures of the past. In international affairs, Beijing would likely be less deferential to U.S. and allied concerns regarding security issues, trade practices, and the like. Over the longer term, an economically powerful and politically authoritarian China could hold sufficient power and harbor substantial differences with the United States to pose the most serious single international threat to U.S. interests in Asian and world stability in the twenty-first century.

LEGISLATION

H.R. 1147 (Lantos)
Encourages liberalization in the People's Republic of China and Tibet. Introduced Mar. 7, 1995; referred to Committee on International Relations.

H.R. 114 (Gilman)
Expresses the sense of the House of Representatives that the United States should support peace and stability in the South China Sea. Introduced Mar. 10, 1995; referred to Committee on International Relations.

CHRONOLOGY

03/29/95 — Press reports noted possible signs of an incipient power struggle in Beijing, including a spate of attacks against high-level official corruption, overt dissent in China's National People's Congress, and prominent activity promoting leaders thought earlier to have been retired from politics.

03/05/95 — Premier Li Peng told the National People's Congress that Beijing would focus in 1995 on cooling economic growth from the 1994 level of 11.8% to a level of 8% to 9% in 1995, and on reducing inflation from the level of 21.7% in 1994 to a level of 15% in 1995.

02/16/95 — A senior Chinese official briefed western reporters on China's strong opposition to a U.S.-backed theater missile defense system in Asia.

02/09/95 — The *Wall Street Journal* reported that China had purchased four modern diesel-powered submarines from Russia in a deal worth $1 billion.

01/12/95 — Deng Xiaoping's daughter told the New York Times that the Chinese leader's health had declined significantly in recent months.

12/07/94 — China threatened to end all previous economic commitments to the west unless the United States acquiesced in Beijing entry into GATT by year's end.

11/14/94 — During an unprecedented series of trips by high-level Chinese officials to Pacific Rim countries, President Jiang Zemin met with President Clinton in Indonesia.

10/07/94 — China conducted a nuclear test.

10/04/94 — China agreed to work toward a ban on producing fissile material for nuclear weapons.

09/28/94 — A Chinese party plenum focused on the need to combat widespread official corruption and other malfeasance.

09/06/94 — China's State Council said curbing inflation rather than economic reform would be the "main" economic task for the next year.

09/03/94 — A Sino-Russian summit meeting was held in Moscow.

08/22/94 — Deng Xiaoping turned 90.

08/09/94 — The House passed legislation endorsing President Clinton's decision to extend MFN treatment for China.

07/22/94 — Testifying before Congress, the CIA gave a detailed, mixed assessment of the status and prospects of China's economy.

07/08/94 — Kim Il Sung died suddenly. China hailed the North Korean leader.

06/16/94 — Senate committees approved H.R. 4426, which had a provision calling for U.S. spending of $600,000 on parliamentary training in China. The provision was dropped during Senate floor action on July 14.

06/10/94 — China conducted a nuclear weapons test. The United States expressed deep regret.

05/26/94 --- President Clinton's extension of MFN tariff treatment for Chinese exports was welcomed by Chinese and foreign officials and entrepreneurs in China.

05/21/94 --- The *Economist* reported that government efforts to control credit are ending the speculative property boom and moderating the surge in industrial production -- signs that the economic growth is being reined in more effectively.

04/09/94 --- Both the *New York Times* and the *Economist* reported growing official concern in Beijing and other cities, and in rural areas, over signs of popular discontent (e.g. strikes, demonstrations) and over reportedly more active political dissidents.

03/23/94 --- In an internal government report likely to prompt heightened leadership concern over social-political stability, the Academy of Social Sciences warned of a potentially explosive mix of inflation, rural and urban labor unrest, and ethnic discord during the period ahead.

03/10/94 --- Li Peng told the National People's Congress that China should strive for 9% growth in 1994, in contrast with the 13.4% growth rate of 1993. He noted that foreign trade grew 18% in 1993, to $195.8 billion.

--- The annual session of the People's Congress and the concurrent March 10-13 visit of Secretary of State Christopher saw a crackdown on recently active political dissidents, seriously complicating U.S. relations with China.

02/24/94 --- China's Foreign Ministry pledged to replace Hong Kong's democratic institutions after China takes power in 1997.

02/22/94 --- China's trade surplus with the United States amounted to $22.8 billion in 1993.

02/20/94 --- *Asia Watch* issued a report on over 1,000 cases of political/religious imprisonment in China.

02/09/94 --- Deng Xiaoping appeared on television for the first time in a year.

02/04/94 --- China reportedly released three dissidents jailed after the 1989 crackdown.

01/24/94 --- Coincident with senior-level meetings with U.S. officials in January (Secretary Christopher in Paris; Secretary Bentsen in Beijing; congressional delegates Gephardt and Johnston in Beijing), Chinese leaders released some dissidents, began talks on opening their prisons to Red Cross inspections, and agreed to discuss the cases of 235 prisoners with U.S. officials.

01/01/94 --- The Chinese government instituted several fiscal reforms, including eliminating special currency for use by foreigners in China.

12/26/93 --- China celebrated the 100th anniversary of the birth of Mao Zedong.

12/21/93 — The city of Beijing imposed price controls on rice, pork, and other staple foods – a sign of official concern over rising inflation.

12/20/93 — A press report about a draft Chinese "Eugenics" law prompted negative comment in the West.

12/15/93 — The World Bank was reported to have found China to have been the largest recipient of foreign funds (amounting to $27 billion) in 1993.

12/09/93 — The International Maritime Bureau reportedly certified nearly 50 cases in 1993 of alleged piracy by Chinese official ships against foreign vessels in waters off the South China coast.

11/14/93 — At a Chinese party plenary meeting, it was decided to push forward with greater growth and reform and to moderate the July 1993 plan to dampen growth and inflation. Analysts warned that such an approach could lead to serious economic overheating and social dislocations.

11/12/93 — It was reported that foreign-funded enterprises now account for 35% of China's burgeoning foreign trade.

10/22/93 — The World Bank issued an "Economic Note" in support of strong Chinese anti-inflationary measures begun in July 1993.

10/07/93 — Chinese troops reportedly killed nine and wounded scores of others in putting down a Muslim demonstration in the western province of Qinghai.

FOR ADDITIONAL READING

Asia Watch. *Detained in China and Tibet: A Directory of Political and Religious Prisoners*. 1994. 688 p.

Bachman, David. "Fourteenth Congress of the Chinese Communist Party." *Asia Society*. November 1992.

Conable, Barber and David M. Lampton. "China: The Coming Power." *Foreign Affairs*, winter 1992/1993.

Fewsmith, Joseph. *Dilemmas of Reform in China: Political Conflict and Economic Debate*. M.E. Sharpe, 1994.

Godwin, Paul and John Schulz, "*Arming the Dragon for the 21st Century*," *Arms Control Today*, December 1993.

Goldman, Merle. *Sowing the Seeds of Democracy in China: Political Reform in the Deng Xiaoping Era*. Harvard, 1994.

Hornik, Richard. "Bursting China's Bubble." *Foreign Affairs*, May-June, 1994.

BEST COPY AVAILABLE

Lin Chong-pin. "The Deng Linchpin Debate." *International Economy*, July/August 1993.

—— "The Stealthy Advance of China's People's Liberation Army. *American Enterprises*, January/February 1994.

MacFarquhar, Roderick. "Deng's Last Campaign." *New York Review of Books*, Dec. 17, 1992.

Miller, H. Lyman. "The Fourteenth Party Congress." *Washington Journal of Modern China*, spring 1993.

Segal, Gerald. "China's Changing Shape: The Muddle Kingdom." *Foreign Affairs*, May-June, 1994.

Shambaugh, David. "Losing Control: The Erosion of State Authority in China." *Current History*, September 1993.

Silk, Michael. "Cracking Down on Economic Crime." *China Business Review*, May-June 1994.

Silverberg, David. "China: The Paper Dragon." *Armed Forces Journal International*, February 1994.

Swaine, Michael. *The Military and Political Succession in China.* Rand Corporation, 1992.

Thurston, Anne. "The Dragon Stirs." *Wilson Quarterly*, spring 1992.

—— "A Society at the Crossroads." *China Business Review*, May-June, 1994.

U.S. Central Intelligence Agency. *China's Economy in 1992 and 1993: Grappling with the Risks of Rapid Growth.* July 30, 1993.

Reprinted from China after Den Xiaoping -- Implications for the United States, by Robert G. Sutter, with the assistance of James Casey Sullivan. Washington, Congressional Research Service, 1995. 27 p. (Report no. 95-465 S, April 7, 1995)

CHINA AFTER DENG XIAOPING -- IMPLICATIONS FOR THE UNITED STATES

SUMMARY

Deng Xiaoping's death will create a vacuum at the center of political power in China. Successor leaders will decide whether to continue the recent collective leadership decision-making processes and policy emphasis on political stability and economic reform; or to press for political power in a search for personal or policy advantage. A struggle for political power in Beijing would complicate an already difficult set of problems of governance caused by rapid economic growth, social change, realignment of central and local power arrangements and other factors. Nevertheless, there are important reasons why China may effectively work its way through the leadership transition.

In general, China's future will be determined by five sets of factors.

o A vibrant but overheated *economy*. It is poised to continue to grow substantially although there are major difficulties, including: inflation, incomplete reform of state enterprises, and regional inequities.

o A less divided central political *leadership*. Chinese leaders are less at odds than in the past over policy but economic reforms have created serious political frictions between the central and local authorities.

o A *society* with apparently few strong advocates for the prevailing political system and with many critics. The regime's standing in society is weakened by widespread corruption and cynicism among officials at all levels.

o A *military* more streamlined, professional, and less tied to local political interests than in the past. The PLA remains the center's ultimate coercive lever. It could play a key role in the leadership succession.

o A *foreign policy* premised on cooperation with China's neighbors and important developed countries in order to support economic modernization. The United States remains the most important single outside influence on China.

Possible outcomes and implications for U.S. interests range from more effective Chinese political administration and reform along with continued successful economic modernization that would be generally compatible with U.S. interests in greater economic opportunity, foreign policy cooperation and political liberalization in China. Alternatively, Chinese administration and economic growth could degenerate, limiting U.S. economic opportunities and challenging U.S. interests in stability in East Asia. Finally, China could develop formidable economic and military power while retaining authoritarian political control, emerging as a world power not particularly accommodative of U.S. interests.

TABLE OF CONTENTS

INTRODUCTION ... 1
  U.S. Interests In and Influence On China ... 2

CHINA IN TRANSITION ... 3
  Leadership Dynamics ... 4
    Beijing's Power Structure and Decision-making Processes--Implications of the Leadership Transition ... 7
      Evolution of Decision-making ... 8
      Important Institutions and Levers of Power ... 9
      Power Bases of the Current Elite ... 9
    Local Politics ... 10
  Economic Modernization--The Linch-pin of Political Legitimacy ... 11
  Regime-Society Relations ... 13
  The Military ... 15
  Foreign Policy Concerns ... 16

FUTURE VARIABLES AND OUTCOMES ... 18
  Variables ... 18
  Outcomes ... 19

IMPLICATIONS FOR THE UNITED STATES ... 21

APPENDIX ... 25

ACKNOWLEDGEMENTS

This report was originally prepared at the request of the Chairman of the House International Relations Committee, Subcommittee on Asian and Pacific Affairs. It is released for general congressional use with the Chairman's permission.

CHINA AFTER DENG XIAOPING -- IMPLICATIONS FOR THE UNITED STATES

INTRODUCTION

In the period immediately following the June 1989 Tiananmen incident and subsequent collapse of communist regimes in Europe and elsewhere, it was common for journalists, analysts and other observers outside China to judge that the communist regime in China was destined for collapse. Observers also sometimes warned of major retrogression in Chinese economic reforms, speculating that Beijing would feel compelled in the face of domestic and foreign pressure to revert to autarchic development policies of the Maoist past. These would reduce Chinese interdependence with other countries and substantially reduce China's incentive to avoid disruptive behavior in interaction with its neighbors and other world powers.[1]

On balance, China's record in recent years has undercut the more extreme near-term predictions of collapse or retrogression. The regime in Beijing has presided over a period of unprecedented growth in the Chinese economy. This growth has not only benefitted many in China, but has come at a time of general lackluster growth in other parts of the world. The result has been a period of unprecedented international investment in and interaction with the Chinese economy. When combined with Beijing's careful avoidance of major controversy and generally accommodating posture in world affairs in recent years, the result has been to erode foreign sanctions and to enhance the international legitimacy of the Chinese leaders. The success of China's continued economic reform also has undermined the arguments of those conservative Chinese leaders who might be inclined to press for a more autarchic development strategy and a more assertive, less accommodating posture in world affairs.

Nevertheless, analysis of key determinants of China's future shows a wide range of possible outcomes for China over the next few years. In particular, a good deal of the success of Beijing's efforts in recent years is attributed to the leadership of senior leader Deng Xiaoping. Deng's reportedly imminent demise means that a vacuum at the center of political power in China could lead to political struggles with possibly adverse outcomes for the country. The leadership transition is likely to complicate an already difficult set of problems of governance caused by dynamic economic growth, rapid social change, a realignment of central and local power arrangements and other factors.

A positive scenario for China's future posits an effective administration and greater political reform along with powerful economic modernization. Alternative outcomes are of two kinds. One sees a series of developments leading to degeneration of government effectiveness and authority with a range of negative effects on China's economic and social development. Another sees China developing formidable economic power while retaining strong authoritarian political control. This raises the possibility of an emerging Chinese economic and military superpower, less interested in accommodation with the outside world and unfettered by the political checks and balances that accompany less authoritarian political structures.

---

[1] For background on this period, see among others, Dumbaugh, Kerry, *China and Congress in 1992*, CRS Report 93-894F, October 12, 1993.

U.S. INTERESTS IN AND INFLUENCE ON CHINA

The United States has a lot at stake in China's future. China lies at the center of the world's most dynamic economic region. Disruption in China not only would have a major impact on U.S. investment (over $7 billion utilized since 1979) and trade (over $40 billion annually) with China, but also would have a serious effect on U.S. trade, investment and other commercial interaction throughout East Asia. Strategically, cooperation from China is central to U.S. efforts to maintain peace on the Korean peninsula, the Taiwan Strait and the South China Sea; curb the spread of nuclear weapons and related delivery systems; and create a cooperative atmosphere among the great powers in the UN Security Council in order to deal effectively with international trouble-spots. Because of its size, economic growth, and location, China is having an increasingly important impact on U.S. interests in curbing environmental pollution and promoting sustainable development internationally. Over the longer term, China is one of the few world actors capable of creating economic, political and military power sufficient to pose a strategic danger to the United States.

The United States also exerts important influence on China.[2] Beijing recognizes that the United States still exerts predominant strategic influence in East Asia and the Western Pacific; is a leading economic power in the region, surpassed locally only by Japan; and is one of only two world powers capable of exerting sufficient power around China's periphery to pose a tangible danger to Chinese security and development. As the world's only superpower, the United States also exerts strong influence in international financial and political institutions (e.g. the World Bank and the UN) that are very important to Beijing, and its role in particular areas sensitive to Beijing, notably policy regarding Taiwan and international human rights, is second to none.

As a result, Beijing sees the United States as the key link in the international balance of power affecting Chinese interests. This judgment goes far toward explaining why Chinese leaders so avidly seek a visit to China by President Clinton. It would signal to all at home and abroad that the United States has muffled its opposition to and endorses cooperation with the Beijing government. Some Chinese leaders remain deeply suspicious of U.S. motives. They believe the U.S. Government is conspiring to weaken and undermine the Chinese leadership and "hold back" China from a more prominent position in world affairs.

---

[2] For background, see Sutter, Robert, *China In World Affairs--U.S. Policy Choices*, CRS Report 95-265S, January 31, 1995, pp. 15-19.

There is general agreement in the United States that Washington should use its influence in order to have Beijing conform to international norms and over time to foster changes in China's political, economic, and security systems compatible with American interests. At the same time, there is little agreement in Washington on how the United States should achieve these objectives. At present, the United States and China have a mixed relationship, cooperative on some issues (Cambodia, Korea, anti-drug efforts, anti-crime efforts, trade promotion) and contentious on others (intellectual property rights, market access, missile proliferation, Taiwan, human rights). As China undergoes its post-Deng Xiaoping leadership transition, U.S. officials will be called upon to decide how to position U.S. policy toward China's future government. (For a review of U.S. policy options and approaches toward China, see *China-U.S. Relations*, CRS Issue Brief 94002.)

This report has three major sections. The first section examines the ongoing leadership transition in Beijing in the context of other critical determinants of China's future development. The next two sections assess future variables and likely outcomes for China over the next 5-10 years, and their implications for the United States.

CHINA IN TRANSITION[3]

The recently reported decline in Deng Xiaoping's health has focused new attention on Beijing's central leadership and the role it plays in China's future. It is important to note, however, that China today is not the China of Mao Zedong when central leaders could dictate policy changes in defiance of economic, social and international realities. China's future will be determined by a mix of leadership judgments interacting with economic, political, social, military and foreign policy trends reviewed below.

---

[3] Analysis in this section benefitted greatly from analyses contained in the Cambridge History of China, Vol. 14, parts I and II; in the volumes on China released periodically by the U.S. Congressional Joint Economic Committee; and for the most recent period, from discussion by Harry Harding, David M. Lampton, David Shambaugh and Albert Keidel, among others, at the Third Japan-U.S. Symposium on China, sponsored by the Japan Institute of International Affairs, Tokyo, July 15-16, 1993; Miller, Lyman H., "The Fourteenth Party Congress," *Washington Journal of Modern China*, Spring 1993; Bachman, David, *Fourteenth Congress of the China Communist Party*, Asia Society, November 1992; Lin, Chong-pin, "The Coming Chinese Earthquake," *The International Economy*, May/June 1992; Thurston, Anne, "The Dragon Stirs," *Wilson Quarterly*, Spring 1993; Shambaugh, David, "Losing Control: The Erosion of State Authority in China," *Current History*, September 1993; Segal, Gerald, "China After Deng," *Jane's Intelligence Review*, November 1994; Waldron, Arthur, "China's Coming Constitutional Changes," *ORBIS*, Winter 1995; and Harding, Harry, "On the Four Great Relationships: The Prospects for China," *Survival*, Summer 1994.

LEADERSHIP DYNAMICS

Political problems, especially perceived differences among the leadership elites in Beijing, have traditionally been given pride of place in Western analyses of contemporary China. Such attention was justified in view of the magnitude and consequences of the political shifts that took place during Mao's reign and Deng's struggles to move the economy away from central planning in the late 1970s and 1980s. Today, differences among leadership elites in Beijing are of less importance.

During the Maoist period (1949-1976), Chinese leadership differences often were wide ranging and had broad implications for China's internal and foreign policies. The differences sometimes resulted in "life and death" struggles between contending factions whose policy preferences ranged along a spectrum, including pragmatic collaboration with the United States and the West on one side, and strident hostility to most of the outside world on the other. The stakes of such leadership differences were high. Those who came out on the losing side faced disgrace, financial ruin, hard labor, torture, and sometimes death. By contrast, policy, personnel, and other differences among Chinese leaders today are much less severe and have much less serious implications for themselves and for drastic policy changes.

Following the death of Mao (1976) and the rise of more pragmatic Chinese leaders bent on economic modernization and reform in the late 1970s, debate among Chinese leadership elites has focused on the dynamics of nation building. Some groups favored the central government's retention of considerable control over the economic development process. This strategy would result in slower economic growth in the interest of avoiding socially disruptive developments. Others favored sharp reduction in state control in order to spur market driven economic growth. They argued that more rapid economic growth over the long run would help Chinese authorities deal more effectively with social and other dislocations stemming from economic and other changes.

Over time, the range of this debate has narrowed. Indeed, the results of the Communist Party's fall 1992 14th Congress and subsequent party and government meetings have reflected a high degree of leadership consensus on how to carry out reform. This new consensus supported a more market-driven approach to economic reform. It also reflected caution over political change seen in leadership decisions since the crackdown on political dissent in 1989. Several factors contributed to this unusual degree of consensus behind the mix of economic reforms and authoritarian politics:

o The demise of the USSR and the recasting of international competition and security in terms of economic strength lent impetus to accelerated economic performance and reform.

o The deaths of key conservative elders (e.g., Wang Zhen, Li Xiannian, Hu Qiaomu) removed obstacles to the economic reform agenda.

Greater leadership unity has also been seen in the sensitive areas of ideological doctrine and personnel assignments. The major doctrinal debates that had characterized differences over Chinese development strategies for so long now appeared to be a thing of the past. After Deng Xiaoping's trip through southern China in early 1992, the Politburo endorsed his conclusion that leftism (orthodox Marxist and Maoist ideas) is a greater danger to China than rightism (Western and liberal values). A few months later the 14th Party Congress endorsed the concept of a "socialist market economy." This formulation, which was selected over more conservative alternatives such as a "socialist planned market economy," for the first time formally assigned market forces a much higher priority than the central plan as the principal regulatory mechanism for the economy.

Other developments regarding personnel changes argued for more uniform support of economic reform:

o Several prominent conservative leaders have been removed from office (Song Ping, Wang Renzhi, and Gao Di).

o A vigorous proponent of economic reform, Zhu Rongji was elevated to the standing committee of the Politburo in 1992, and serves concurrently as the executive vice premier of the State Council.

o Two other officials believed sympathetic to reform--Qiao Shi and Li Ruihuan--have taken over the chairmanships of the country's two central legislative bodies.

All of the above did not imply that Chinese leaders would remain unified in the period ahead. The personnel decisions made at the 1992 party congress and later were preceded by intense political struggle among competing factions and resulted in the choice of compromise candidates in several cases. Obviously Beijing leaders are well aware that the still uncertain succession question means that policies and positions will be dealt with not just on their merits, but on how they will affect the careers of Chinese political leaders. Those who favor more conservative doctrine and policy also still have access to official media to air their views.

In recent months, signs of fluidity in elite-level politics have continued as the maneuvering around the succession to Deng Xiaoping intensifies. There are at least two competing groupings in the Central Party leadership. The more conservative group (widely believed to include Jiang Zemin, Li Peng and Zou Jiahua) favors a slower rate of economic growth, a more cautious approach to economic reform, a less extensive opening of the Chinese economy to the rest of the world, and the maintenance of an authoritarian political system. The reformers (probably including Zhu Rongji, Qiao Shi, Wan Li, Tian Jiyun and Li Ruihuan) advocate bolder economic reform, fuller integration with the international economy and often faster economic growth. Notably, some of the reformers appear to support a reassessment of the Tiananmen crisis, the political rehabilitation of former Prime Minister Zhao Ziyang, and a greater role for legislative assemblies in the political process.[4]

[For a brief biographic sketch of six important leaders in current Beijing politics, see Appendix.]

These two leadership groups, in turn, reflect an even broader range of opinion outside the national leadership. Although no longer prominently represented on the Politburo, conservatives are still active and have criticized the loosening of administrative and ideological controls over society, the embrace of some capitalist economic policies, and the adoption of what they regard as an overly accommodative posture towards the United States. These conservatives are said to have the support of some prominent veteran officials, including Chen Yun and Deng Liqun.

Conversely, although there is no sign that national leaders are prepared to advocate sweeping political reform, there are clearly those in China - especially younger officials and most intellectuals in the major cities - who will press for more rapid progress towards political liberalization.

At present, there is a notable turn away from the three year market reform boom evidenced since Deng Xiaoping's tour of South China in 1992. As the leadership transition has moved forward, a conservative emphasis on central control, economic balance and social stability has prevailed. President Jiang Zemin and Premier Li Peng have taken the lead, seeking to further entrench their political positions and either remove or mollify potential challengers.

It seems likely that the conservatives will not only face opposition from advocates of continued active reform, but will confront economic, social and other systemic problems that will make renewed economic and probably political change necessary. In particular, Beijing cannot afford the public largesse necessary to continue present economic policies which subsidize the urban population and appease the localities. It needs to continue moving toward privatization of state enterprises and market reform. Also, party corruption -- an increasingly serious problem, probably cannot be remedied without greater rule of law -- a change requiring political reform.

It is possible that the leadership succession will be carried out smoothly. Although the new leaders have more narrow bases of political power than did Deng and leaders of his generation, they may be able to manage internal differences amicably. Viewed retrospectively since the Maoist period, it seems clear that the steadily narrowing range of debate in Beijing over policy, doctrine and personnel means that there is less controversy in these areas. It also seems evident that prospects for a major disruptive change coming from disputes in these areas are less than in the past.

---

[4] Of course, in a period of leadership transition, Chinese leaders may choose not to follow their policy preference, but adhere to a different line for tactical political reasons. In the recent past, for example, Party Chairman Jiang Zemin moved from cautious support for reform, to more rigorous support following Deng Xiaoping's tour of southern China in 1992, to the more cautious support we see today.

Prudence and past experience nonetheless argue against certainly in looking at China's leadership transition. Although there are more institutional mechanisms in Chinese leadership politics, personalities and particularistic connections remain central in determining power in China. Outside observers with little knowledge of these personal and particularistic factors are hard put to offer a definitive prediction of leadership dynamics in Beijing. Based on current knowledge, there appears to be ample opportunity for continued serious divisions within the leadership over both power and policy. This could be reflected in periodic reshufflings of personnel, as one faction gains temporary advantage over the other. It might also be reflected in chronic immobility, in which a divided leadership is unable to make timely and coherent decisions.

Beijing's Power Structure and Decision-making Process--Implications of the Leadership Transition

The post-Deng Xiaoping leaders will exert power, and make and carry out decisions, through the array of power mechanisms and decision-making processes available to them. Depending on personal preferences and circumstances, senior leaders in China have tended to use different kinds of mechanisms to exert their influences, and to come to and carry out decisions. The post-Deng Xiaoping leaders are unlikely to be exceptions to this rule.

There is little specific, concrete information as to how senior Chinese leaders reach decisions on significant issues and insure that those decisions are carried out to their satisfaction. In general terms, the Chinese power structure may be divided into three main pillars:

- The state or government
- The Party
- The military

The day-to-day decision-making has been delegated by the senior leaders to the important institutions and ministries within each of the pillars. Daily running of the government is the responsibility of the State Council and its working organs. It can be assumed that the ministries operating under the authority of the State Council have substantial independence in running each ministry's daily affairs but that highly important decisions are made primarily by the State Council and/or the Party.

The main institution in the Party apparatus is the Standing Committee of the Politburo which makes all important decisions concerning the Party. Day-to-day running of the Party apparatus is the responsibility of the Party Secretariat. Most of the important decisions on matters of policy and personnel are adopted under the authority of the Party. It is assumed that the seven-member Standing Committee is the most powerful institution in the PRC.

The main military institution is the Central Military Commission which has connections to both the Party and the State, but is most strongly linked to the Party. The Commission's chairman (Jiang Zemin) and main vice-chairman (Liu Huaqing) are both Party Standing Committee members. The military is further divided into a myriad of offices and departments, several different branches and seven military regions.

There is a significant overlap of senior leaders' authority (especially between the State and Party) which prevents the development of any separation of powers within the PRC political system. Thus it is difficult to say which pillar actually makes the ultimate decisions on issues of great import for any given issue area. There exists no explicit institutionalized decision-making structure. Reforms in the 1980's toward a more formalized decision-making structure were undermined by, and in part blamed for, the catastrophic events of June 1989. It is perhaps safest to assume that all vital decisions relating to the Party, State, or Military are made by a small group of Standing Committee members in consultation with party elders and influential members of interests groups and ministries most directly affected by decisions.

Evolution of Decision-making. In the Maoist era, decision-making was often a highly personalized affair. Major policy shifts were either authorized and formulated by Mao. Bureaucratic and regional interests were kept in check through campaigns and purges. Mao had great ability to remove rivals if he desired and during his rule the center generally could command the obedience of the provinces.

Deng Xiaoping acceded to power in part by promising an end to the Maoist politics that threatened political careers and stifled dissent within leadership confines. For Deng, this reduced his ability to manipulate other leaders. Coupled with his lack of unquestioned authority (relative to Mao), this has meant that Deng has had to build consensus on reform measures and serve as a broker among reformist, conservative, and other factions. His success in these functions has helped to reduce the threat political instability poses to economic modernization. The bargaining has increased the ability of the provinces to lobby for their interests and resist some central directives.

The next generation of leadership, while vigorous, better educated and more skilled in economic matters, does not possess a leader with the great authority and vital horizontal political links of Deng. They will likely have to broker political interests even more than Deng did, and will be less able to impose bold ideas on fellow leaders.

With no dominant leader likely to emerge in the immediate future, greater emphasis may be put on alliance-and coalition-building. The Party may continue to place a premium on leadership stability and unity, and leaders may prefer to see that the leadership succession question is decided amongst themselves in a more predictable and controllable process.

Important Institutions and Levers of Power. Recently prominent institutions of power include the Party Politburo's Standing Committee of seven top leaders; the Party's Central Military Commission; the People's Liberation Army, the Peoples Armed Police, the Public Security Bureau and related organs of defense and internal security; the State Council and associated government ministries; and the national legislature, the National People's Congress, led by its Standing Committee.

The PLA's influence will likely be felt in any leadership succession. The PLA has traditionally influenced civilian affairs and been called in to end social unrest. Part of Deng's reform program included reducing the military's role in civilian affairs. This may have worked too well to suit Deng in 1989, as many military leaders were reportedly wary of following Party orders to crack down on the Tiananmen demonstrators. The military representation in the Party's Central Committee has increased since Tiananmen, as has the size of defense budgets. The appointment in recent years of two elderly military officers to lead the military may reflect Deng Xiaoping's concerns over securing the unwavering loyalty of the military for China's future civilian leaders.

Economic modernization is the linchpin of party legitimacy. Thus institutions that play a vital role in influencing economic modernization are important sources of power. These institutions include: The Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the State Economics and Trade Office, the Central Banks, and institutions that deal with science and technology.

The influence of regional leaders on decision-making has increased substantially as decentralization of power has proceeded over the past 15 years. The support of regional leaders could be crucial to the leadership succession and in carrying out decisions of the new central leaders.

Party elders -- contemporaries of Deng Xiaoping -- are now few in number but have exerted important influence throughout the reform era. Precisely how they influence policy is not known, although it likely has more to do with widespread personal connections and prestige than with formal levers of power.

Power Bases of the Current Elite.

Jiang Zemin now currently holds all of the top posts in the State, Party, and Military organs. This is unusual in PRC politics, and may mean little politically. The only other PRC leader to hold all these posts concurrently was Hua Guofeng, who was pushed aside by Deng Xiaoping at the start of the reform period in the late 1970s. If the Party leadership is wary of engaging in a leadership struggle and is more amenable to a sort of collective leadership, Jiang may stand to gain as he already holds the nominally most powerful posts. Jiang's weakest ties are with the military, but he has been working steadfastly to improve them (see biographic sketch).

Li Peng is currently the Premier of the PRC's State Council and the chief conservative on the Politburo's Standing Committee; his major patron among the Party elders is Chen Yun. Li is also believed to be the major implementor of China's post-Tiananmen foreign policy. Li has few military ties.

Qiao Shi has had extensive experience in the Party's security and intelligence apparatus. He reportedly has control of the dossiers of the current leadership, which is an important source of power within the regime. Qiao is now chairman of China's primary legislative organ, the NPC, and he is reportedly trying to transform that legislature from a rubber stamp body to a genuine power source. Qiao has few overt military ties.

Zhu Rongji is currently the leader most responsible for the economy. He is most closely identified with economic reform. Zhu is currently the head of the People's Bank and is overseeing trade and state enterprise reform, as well as energy, and natural resources development and the Chinese stock market. Zhu's duties require him to travel extensively around China and insure that provincial leaders follow central directives. This could help him expand ties with regional leaders, or cause them to dislike him if he is seen as forcing provinces to abide by unpopular central directives. Zhu's influence over the economy could be an important source of power, but if the economy sputters substantially he could suffer politically. Zhu has few military ties.

Yang Shangkun currently holds no positions but is considered a still healthy party elder. Yang has the strongest military ties of any potential successor to Deng.

Zhao Ziyang does not have many military ties. In fact many military leaders might oppose his return to power given his opposition to military intervention ending the Tiananmen demonstrations. Zhao does enjoy strong regional support especially in the economically important South. Zhao is also closely identified with the liberal causes of economic and political reform.

Local Politics

Economic reforms have been accompanied by a largescale devolution of authority from the central party and government organs to provincial and other local authorities who are taking the lead in promoting flexible schemes to foster economic growth. There is a danger that local authorities will become so influential as to undermine and eventually challenge central authority.

Provincial authorities have been given greater control over personnel appointments in their jurisdictions; greater authority to approve imports, exports and foreign investment projects; greater access to tax revenues and to the profits of state enterprises; and greater power over domestic investment decisions. Provincial leaders, always able to lobby the center on matters of policy and resource allocation, are increasingly able to evade or even defy decisions with which they disagree.

The power of the provincial leaders also may be reflected in their growing role in the central elite. No fewer than six provincial and municipal leaders (from Tibet, Shanghai, Beijing, Shandong, Guangdong, and Tianjin) were added to the Politburo at the 1992 14th Party Congress--the largest increase in such officials since the Cultural Revolution. Similarly, the proportion of central committee members taken from the local regions rose from 25 percent at the 13th Congress to over 60 percent at the 14th Congress.

The decentralization of political power in China recently has been a disorderly process. It poses serious difficulties for Beijing leaders trying to cool down the currently overheated Chinese economy. Yet it is easy to exaggerate the implications for China's future. In particular, prospects for the political fragmentation of China--often cited in Western press reporting and some China experts' analysis about China--appear fairly remote. The central government still controls the allocation of economic resources that are critical to most of the country's provinces. The Party's central personnel apparatus appoints the top officials at the provincial level, and central leaders still control the People's Liberation Army and the Public Security apparatus. Alongside these political factors for unity must be placed the emergence of an economic system that is more highly integrated nationally than ever before, and the popular nationalistic ideal of China as a nation-state.

ECONOMIC MODERNIZATION--THE LINCHPIN OF POLITICAL LEGITIMACY[6]

Economic modernization remains a fundamental determinant of the future of China. Post-Mao leaders have recognized that their hold on power rests heavily on their ability to achieve concrete economic success and to make life materially better for the vast majority of the Chinese people. They are aware that they have little of Mao's prestige as a successful revolutionary and nationalist leader, and that the hold of communist ideology on the minds of the Chinese people is a thing of the past. Performance is seen as what counts, and economic performance is the linchpin of the continued political legitimacy of the communist leaders in China.

Bad statistical reporting notwithstanding, Maoist China had quite respectable (over 8% annually) rates of economic growth, on average. It achieved much in bringing China from its largely agrarian roots and produced an impressive array of industrial and technological establishments. In the course of these efforts, however, tens of millions lost their lives. Waste and inefficiency reached a point in the late 1970s that a consensus was reached among post-Mao leaders on the need to move away from state-controlled development, harness some free-market vitality, and to open China more to the outside world. What followed was basically a pragmatic, trial-and-error approach that is now building China into a more modern and efficient market-centered economic power.

---

[6] Analysis in this section is based heavily on CIA, *China's Economy in 1992 and 1993: Grappling With the Risks of Rapid Growth*, July 30, 1993, and *China's Economy in 1993 and 1994: The Search for a Soft Landing*, July 22, 1994. It also benefitted from the periodic assessments of the Chinese Economy published in several volumes by the U.S. Congress, Joint Economic Committee, (e.g. "China Under the Four Modernizations," 1982; "China's Economy Looks Toward the Year 2000," 1986; and "China's Economic Dilemmas in the 1990s," 1991). Other notable views are seen in writings of Perkins, Dwight and Lardy, Nicholas in the Cambridge History of China, Vol. 14, Parts I, and II and Harding, Harry, "China's Second Revolution," Brookings, 1987.

Efforts focused first on rejuvenating the stagnant rural economy, resulting in several years of rapid growth which, by the mid-1980s, had doubled the income of the average farmer. Dominated by large state-controlled enterprises, the urban economy posed a more difficult management problem. Nonetheless, progress in the direction of greater decentralization and reliance on market forces has been evident since the 1980s. Chinese officials now claim that roughly 80% of commodities in China are distributed through market channels at prices largely set by market forces.

Reliance on decentralized decision-making -- a feature of economic reform efforts -- has given local authorities a greater say in economic matters. Prior to the reform, economic policies were largely inflexible and dictated from Beijing or from provincial capitals. Reforms have given local officials greater leeway to adapt policies and implementation to fit their conditions. Since the early 1980s, China's economy has grown at an average of nearly 9% a year in real terms. Living standards for much of the Chinese population have improved steadily over the past decade and a half, and consumer goods and food supplies are abundant throughout much of the country.

Beijing's trial-and-error approach to economic reforms has not been without significant drawbacks. For instance:

- In many cases, the regime has delayed the hardest reform steps -- such as closing money-losing state factories or trimming surplus workers from state enterprise payrolls -- out of fear of social unrest.

- Reforms have widened the gap between rich and poor regions of the country.

- Local decision-making authority has been accompanied by rising levels of corruption.

- Despite substantial reform over the past decade and a half, the regime still has problems in tuning China's economy to achieve stable long-term growth. Economic cycles in China tend to be severe. To curb economic overheating, Beijing must step in with blunt measures -- such as cutting off new lending -- when inflation and other unwanted side-effects emerge.

In the late 1970s and 1980s, there was strong debate from often widely varied perspectives in the Chinese leadership on how to handle China's economic development and reform. Today, the leadership appears more united on these issues.

In 1992, Beijing registered a booming 12.8 percent growth rate. The boom continued in 1993 at a rate of 13.4 percent. With such rapid growth came dislocations and renewed inflation. Beijing decided in mid-1993 to strengthen measures to cool the economy under the direction of Vice Premier Zhu Rongji. The cooling plan proved to be not as sweeping and Draconian as past government efforts to curb inflation during previous "boom-bust" cycles associated with Chinese reform. Beijing still wants to see economic growth at a more sustainable, less disruptive level of around 9 percent a year. Its main problem comes from local officials bent on pursuing entrepreneurial endeavors with sources of capital outside central control.

At a Communist Party plenum on November 11-14, 1993, it was decided to push forward with greater growth and reform and moderate the earlier measures to dampen growth and inflation. Results in 1994 showed continued economic overheating along with some indications that efforts to rein in rapid economic growth were beginning to work.

- An 11 percent growth rate for 1994.
- Continued inflation rates over 20 percent.
- Continued very active foreign investment.
- Continued widening in gap of per capita income between better-off urban residents and poorer rural dwellers.

On balance, the economic fundamentals in the Chinese economy remain strong. China has the natural resources, the human capital, and access to foreign technology and capital to sustain growth rates of the past decade into the next century. It is also at the geographic center of the world's most dynamic economic region. But China continues to face major economic impediments, including inadequate transportation and electric power systems, large population growth, an emerging business law system, and inadequate fiscal and monetary control mechanisms.

REGIME-SOCIETY RELATIONS[6]

A focal point of analytical concern in the West recently has been the nature of regime-society relations in China. If there is going to be a big challenge to China's new leaders and a big change in direction in Chinese policy and practice, many analysts believe, it will be ignited by friction as the regime's injunctions and conflicting trends in the society rub together. Adding fuel to this fire is widespread discontent with growing official corruption.

There has been mounting evidence of discontent in both rural and urban areas. Many city dwelling intellectuals, workers, and others were thought to have been seriously alienated from government authority following the repression of the Tiananmen demonstrations of 1989. This may have moderated over the years but not disappeared.

---

[6] See sources in footnote 3, especially works by Anne Thurston, David Shambaugh, and Chong-pin Lin.

Urban dwellers also contain the largest groups in the society whose benefits are being fundamentally challenged by the economic reform policies. They are unused to economic insecurity and some are thought to be willing to restrict reform in order to preserve their benefits (e.g. guaranteed job, low-cost housing, health-care.) Others, of course, welcome the enormous increase in personal freedom that comes from the breakdown of the so-called work unit system that has dominated the life of workers and others associated with state controlled enterprises and other places of employment. In particular, the individual worker is no longer dependent on the unit and its sometimes capricious and overbearing leaders for the essentials of life (salary, housing, schooling for children, rations if applicable). On balance, it seems fair to conclude that most urban workers in state controlled enterprises--while they might welcome new freedom--are unused to and fearful of the possible negative consequences for them that could result from "jumping into the sea" of market-oriented enterprise in Chinese cities.

In the countryside, the terms of trade and government procurement practices for agricultural goods have taken a turn relatively disadvantageous for farmers after the high growth in peasant income fostered by government policies in the late 1970s and early 1980s. Prices of consumer goods and agricultural inputs have risen, far outpacing government procurement prices for agricultural commodities. Local officials responsible for purchasing grain and other mandated crops have sometimes used their allocations of cash to speculate in real estate or local enterprises. They have provided peasants with "IOUs" for their crops--a practice that has set off a number of peasant demonstrations and riots. Local officials have often established a sometimes dizzying array of taxes, fees and levies from the peasants in order to help support local services and to provide capital for entrepreneurial endeavors supported by local officials. The cumulative effect of all these practices has been largescale popular discontent and many reports of strikes, demonstrations and sometimes violent riots against local officials and the broader administrative system that supports them.

In the past, the center could endeavor to deal with such problems through party channels, using the so-called "rectification" campaigns to weed out corrupt or abusive local officials in order to insure continued effective government. Current conditions in China make such an approach less likely to succeed. Reformers in Beijing are following policies that tacitly endorse the widespread entrepreneurship shown by local officials. The scope of corruption and misuse of funds has reportedly become so widespread that there may not be enough untainted cadre or local officials uninvolved in these practices to replace or sanction the errant local cadre.

Behind this state of affairs rests a widespread cynical view of power and politics in China. In the past, the vision of Marxism-Leninism had created an important incentive to motivate party-government cadre to insure their loyalty to central discipline. Today that ideology is widely viewed as bankrupt, and has often been replaced by a more particularistic, self-serving mentality where cadre work hard to benefit mainly themselves, their families and their localities.

Democratic societies have established usually effective institutions to deal with local-central conflicts of interest and friction between the society and the state. China has few of these mechanisms. The policy consensus in Beijing seems to preclude any significant political change to establish them in the near future. The result is likely to be continued friction between the society on the one hand and the organs and officials of government, especially central government, on the other.

THE MILITARY

The People's Liberation Army (PLA) remains the ultimate instrument of central control over society and possibly resisting localities. At the same time, the PLA remains important as a possible arbiter should central, civilian policymakers reach an impasse on sensitive decision points involving domestic or foreign policies.[7]

The army today is leaner, led by more professionally competent officers, and less inclined to identify with local interests than in the past. The PLA has gone through a series of important changes and reforms under Deng Xiaoping's leadership. These have involved:

o Rotation of local military commanders.

o The establishment of more regular retirement of senior level leaders.

o Reduction in the number of military regions.

o Increased centralization of the chain-of-command.

o Big cuts in force levels, along with incremental efforts to modernize the training, equipment and personnel procedures of the PLA.

At the 14th Party Congress in 1992, PLA leaders thought to have strong political ambitions were demoted in ways designed to firm up the principle of civil control of the military and reduce the chances of the emergence of a rival base of power. The consensus on the policies of economic reform and political authoritarianism reached at the Congress and later leadership meetings also suggested that the PLA leadership was prepared to adhere to and support current policies.

---

[7] Analysis in this section is taken in particular from discussion at the Institute for International Security Studies and China Association of Policy Studies conference on the PLA, June 1993; Swaine, Michael, "The Military and Political Succession in China," Rand Corp., 1992; discussion at the Third Japan-U.S. conference on China, noted above; and discussion at the U.S. Defense Department Net Assessment Office, Conference on China's Future, August 1994. For background, see Kan, Shirley, *China's Military: Roles and Implications for U.S. Policy Toward China*, CRS Report 91-731F, October 3, 1991.

An example of the military playing a strong role in political evolution in transitional states was seen notably during the events in the Russian Republic in September 1993.

Analysts remain unwilling to rule out an extraordinary intervention by the PLA into the political process. For one thing, it seems likely that the death of Deng Xiaoping will remove the leader with the most civilian *and* military prestige and create a power vacuum that will be difficult to fill. Few of the apparent contenders for power have extensive PLA experience. For the most part, party-government leaders and PLA leaders are following different career paths that make communications between the two more difficult. Thus, to achieve their interests, PLA leaders may feel compelled to resort to -- albeit reluctantly -- unauthorized actions. Secondly, politically ambitious PLA leaders who were demoted at the last Congress are still in the leadership or still retain considerable political influence; they may try to revive their political fortunes.

Against this backdrop, it is quite possible that a combination of factors such as policy indecision in Beijing and instability or disturbances in the provinces could provide sufficient justification for at least some PLA leaders to intervene in politics. Such intervention would be harder to stop in the absence of senior leaders like Deng Xiaoping. How this intervention would take place is difficult to foresee. Some suggest that the size and difficulty of administering China would force the military to work through existing party-government mechanisms. The military would rule in the name of party-government authority. A serious danger posed by any such military intervention would be seen if competing military leaders were vying for power. In such cases, a split in the PLA would presumably reflect a split in the leadership as a whole and add greatly to the administrative difficulties of ruling the country.

FOREIGN POLICY CONCERNS

Chinese foreign policy changed markedly during the Maoist period (1949-1976). It moved from reliance on the USSR and strident opposition to the United States to a posture of strong opposition to both the U.S. and the USSR and finally to an approach that relied strategically on reconciliation with the United States to deal with the danger posed by the Soviet threat. After Mao died, Chinese leaders emphasized domestic policies of development that required markedly increased economic contacts abroad and gave added impetus to Beijing's desire to sustain good relations with the West and to avoid disruptions around the periphery of China that would complicate the Chinese drive toward modernization.[8]

Major changes have taken place in the international balance of power since the late 1980s (e.g. the collapse of the Soviet Union) and in China (e.g. the Tiananmen incident), but Chinese foreign policy continues to adhere to the general outlines established in the years after Mao's death. So long as China remains preoccupied with internal developments and international actors avoid initiatives seen as posing fundamental challenges to the Chinese leadership, Beijing seems likely to continue to follow the relatively narrow range of policies that it has adhered to in the past 15 years.

---

[8] For background, see among others, Sutter, Robert, *China in World Affairs*, CRS Report 95-265S, January 31, 1995, 19 p.

While the content of Chinese policy changed, some goals remained broadly consistent:
. Security of the Chinese state and communist leadership.
. Development of China's wealth and power.
. Chinese strength and independence in world affairs.

Several trends have characterized the Chinese approach to foreign affairs in the post-Mao period:

- Chinese leaders now face a security environment around China's periphery that is less likely to be disrupted by a major international power than at any time in the past.

- Regional security trends have been generally compatible with China's primary concern with internal economic modernization and political stability.

- Ideological and leadership disputes have had less importance for Chinese foreign policy than in the past.

- Chinese foreign policy has become more economically dependent on other countries, especially the Western-aligned, developed countries, than in the past. They have provided the assistance, technology, investment and markets China needs to modernize effectively.

- China's overall pragmatic adjustments to world affairs have not been dependent on just one or two leaders in China. Although Deng Xiaoping picked up senior foreign policymaking duties from Mao Zedong and Zhou Enlai, the policies followed represented, in broad terms, a consensus among senior Chinese leaders who have been advised and influenced by a wide range of experts and interest groups in China.

There remains the distinct possibility that outside forces (e.g. the U.S., Taiwan) may adopt policies that challenge fundamental Chinese interests and prompt a strongly assertive Chinese response. For example, Beijing has threatened repeatedly that it would resort to force to halt movement in Taiwan to declare the island an independent country. Some analysts also judge that Beijing may revert to a tough anti-U.S. posture if the United States escalates sanctions and other pressures on China's communist regime. Hostilities in Korea that threaten vital Chinese security interests also would possibly prompt a forceful Chinese response.

FUTURE VARIABLES AND OUTCOMES

VARIABLES

Looking to the future, there remains much uncertainty about China's future direction, despite the relative consistency of the overall foreign and domestic policy framework of the post-Mao leaders. Prudence requires examination of a range of possible outcomes for China's ongoing transition. Much will depend on a number of critical variables that have determined Beijing's success or failure in recent years and seem likely to remain major determinants for the next few years.

- Political leadership: How long will the recent broad consensus on economic reform and political authoritarianism last? Will a struggle for power following the death of Deng Xiaoping lead to an impasse in policy making on domestic or foreign policy questions? What mechanisms will emerge to deal with expected continuing differences among central leaders and between them and provincial and local government leaders?

- Economy: How well will government authorities manage recent efforts to cool down the economy and control unwanted side effects (inflation)? Over the longer term, will it be possible to establish enough market control mechanisms in order to avoid the sharp and wasteful "boom-bust" economic cycles of recent years? Are there sufficient incentives for central and local authorities to work together on economic policies that will foster more efficient growth, curb lagging non-market enterprises, deal effectively with transportation, power and other bottlenecks, and give all major sectors of the Chinese economy a meaningful stake in economic reform?

- Society: Will cleavages among significant groups in society (e.g. successful entrepreneurs versus low-paid employees in government-run enterprises) grow as a result of continued economic reform? Will relatively disadvantaged groups adopt extralegal means to register their grievances or will political and other mechanisms be established allowing these groups to have more of a say in government policy? How will authorities deal effectively with the widespread corruption among officials at central and local levels?

- Military: Will PLA and civilian leaders continue to cooperate closely in the post-Deng Xiaoping leadership? Will the PLA continue recent trends toward a more professional and streamlined force, or will PLA leaders feel impelled to get involved more deeply in post-Deng leadership politics? Does the PLA's heavy involvement in market-oriented enterprises sap its ability to serve as a coercive force against social discontent or resisting local authorities, or its ability to serve its primary goal of national defense?

- Foreign Policy: Are foreign powers--notably the U.S.--increasing or reducing political, economic or other pressures on China's political system? Does an interdependent economic strategy continue to hold sufficient benefits for China as to outweigh the costs China pays in terms of diminished sovereignty and accommodating international pressures and irritants? Will developments around China's periphery and elsewhere in world affairs continue to be basically compatible with China's development strategy, or will events (e.g. Taiwan's declaration of independence; major international confrontation with North Korea; Japanese decision to develop nuclear weapons; rise in U.S. trade protectionism) prompt a sharp, more assertive China response? Has greater Chinese economic and military power prompted PRC leaders to be more assertive in backing nationalistic, territorial or other demands?

OUTCOMES

Analysis of key determinants shows a wide range of possible outcomes for China over the next few years. A positive scenario posits increasingly effective political administration and eventual democratic reform along with continued successful economic modernization. Alternative outcomes viewed negatively in the West are of two kinds. One sees a series of developments leading to a steady degeneration of government effectiveness and authority, with a number of resulting negative side effects for China's economic and social development. Another sees China successfully developing economic power while retaining strong authoritarian political control. This contemplates an emerging Chinese economic and military superpower, much less interested in accommodation with the outside world and unfettered by the political checks and balances that would accompany a less authoritarian political structure.[9]

---

[9] Among sources useful for this section, see "China in Transformation, *Daedalus*, Spring 1993;" Dittmer, Lowell and Kim, Samuel (eds.), *China's Quest for National Identity*, Council, 1993; Waldron, Arthur, "The Sino-American Scene," *Wall Street Journal*, May 22, 1992; MacFarguhar, Roderick, "Deng's Last Campaign," *New York Review of Books*, December 17, 1992; Thurston, Anne, "The Dragon Stirs," *Wilson Quarterly*, Spring 1993; Shambaugh, David, "Losing Control," *Current History*, September 1993; Harding, Harry, "China in the 1990s: Prospects for Internal Change," *National Bureau of Asian and Soviet Research*, September 1990; Conable, Barber and Lampton, David M., "China: The Coming Power," *Foreign Affairs*, Winter 1992/1993; Whyte, Martin, "Prospects for Democratization in China," *Problems of Communism*, May-June 1992; and Lin, Chong-pin, "The Deng Linchpin Debate," *International Economy*, July/August 1993. See more recently, Sutter, Robert, *China's Changing Conditions*, CRS Issue Brief 93114, (updated regularly), and the analysis in the Defense Department Net Assessment office's review of China's future, presented at the Heritage Foundation, February 17, 1995 and reported on by the *Washington Times*, February 18, 1995.

In many respects, the three outcomes represent extremes. There are many outcomes that fall in between, or contain elements of more than one of these three. Thus, for example, an authoritarian China that is not strongly successful economically would lie somewhere between the outcomes of "degeneration" and "economically powerful authoritarianism" and presumably would have elements of both. Similarly, greater political-economic decentralized decision-making need not be accompanied by substantial degeneration, and China would lie somewhere between "transformation" and "degeneration" under these circumstances.

- Transformation. This scenario assumes that the decentralization of political and economic decision-making power can be managed effectively to favor China's continued development and stability. China may adopt aspects of the federal political system, where the federal and state governments share revenue, power, and the tasks of governance. The revenue base and macroeconomic control of the central government would improve with an overhaul of the financial, taxation, and central bank systems. Price reform and return to private property would stir greater rural and urban productivity. The peaceful transition of power could be institutionalized. The political system could shift to greater liberalization, such as steps towards strengthening the legislature and greater press freedom. Prior to the 1989 crackdown, some officials were beginning to initiate such political reforms. There is also room for reconciliation between the government and society, if human rights are respected and rule of law is established to check arbitrary abuses of power. As economic power of the individual grows in China, the groundwork for a civil society and pluralistic politics is strengthened. The expansion of foreign trade and investment could lead to China's integration with the international community. Such a development would also produce greater consensus on trade, weapons nonproliferation, and other common interests.

- Degeneration. This scenario posits a leadership in Beijing that could become paralyzed in a prolonged power struggle that cripples the government. The delay in needed economic as well as political reforms could produce greater decay, discontent, and multiplying problems in the longer run. Major economic problems that persist, widening income gaps, and uncontrolled inflation could lead to rampant social instability. The kind of corruption that drains, not fuels, the system could swell to distort development and further breed organized crime. Environmental problems, national disasters, uncorrected infrastructure and energy bottlenecks, and fiscal crises could lead to economic breakdown. Continued repression or brute coercion could contribute to social apathy or anarchism. Weak and divided civilian as well as military authorities could also induce separatist protests in areas like Xinjiang and Tibet, provoking ethnic conflicts and civil war. An insecure Chinese government would be unable to responsibly participate in the United Nations or credibly negotiate international agreements.

- Economically powerful authoritarianism: This outcome contradicts much social science literature which holds that continued economic reform will lead to greater political pluralism. It assumes that authorities in China will be successful in modernizing the Chinese economy and use that success to justify and support an authoritarian structure at home. The probable result would be substantial continued political repression and human rights abuses. China's economic power would be of such a scale as to make most foreign powers unwilling to confront Beijing on most issues. Thus, Chinese leaders inclined to more assertive, nationalistic policies would have a freer hand to pursue their objectives, less concerned that important Chinese trading partners would shun economic opportunities in China if Beijing failed to behave according to accepted international norms. Even moderate state direction of the massive Chinese economy would give Beijing strong economic power to manipulate terms of trade and investment in critical economic sectors toward creation of an Asian sphere of influence or other objectives.

IMPLICATIONS FOR THE UNITED STATES[10]

The rapid growth of China's wealth and power and a prominent role in Asian and world politics have increased the importance of China for American interests. Developments in China will have important implications for longstanding American interests in sustaining influence in Asian and world affairs, assuring smooth access to economic opportunities abroad, and in promoting American values of economic free enterprise and political democracy. In the post-Cold War international environment, these American security, economic and political interests have been closely tied to a number of newly prominent transnational issues (weapons proliferation, trade practices, environmental policies, immigration and refugees) where China's actions loom large in the American calculus.

Recent practice has made clear that developments in China can have positive or negative implications for American interests. Thus, China's large, current economic market and great potential are a magnet to American exporters, and U.S. importers and consumers benefit from imported Chinese consumer goods. But China's trade and economic practices are major headaches for American firms concerned with intellectual property rights, fair access to the China market and other issues. Although Beijing has been generally cooperative with the United States and Japan in post-Cold War Asia, there is no guarantee that an economically stronger China might not use its influence to adjust the Asian security order contrary to American interests. Meanwhile, the American and Chinese political, social and economic systems remain fundamentally different. With greater U.S.-Chinese interaction comes greater familiarity with such differences and the rise of friction over what are seen as repeated Chinese affronts to human values respected by the United States.

---

[10] For background, see discussion in Sutter, Robert; Kan, Shirley; and Dumbaugh, Kerry, *China In Transition: Changing Conditions and Implications For U.S. Interests*, CRS Report 93-1061S, December 20, 1993, 23 p. and Sutter, Robert; Kan, Shirley; and Dumbaugh, *China's Changing Conditions*, CRS Issue Brief 93114 (updated regularly).

In view of the range of possible developments in China, discussed below are the likely implications of three generic outcomes for U.S. interests:

- Transformation: A positive transition process in China would mean that leaders in Beijing would be able to avoid political paralysis, establish leadership consensus on a wide range of policy goals, and implement policies effectively. This context allows policy decisions that could well be compatible with a broad array of U.S. interests and goals. In the economic sphere, these would include pursuing pragmatic, market-oriented economic policies; promoting plans that attract foreign investment; and adopting and enforcing laws that would more effectively curb rampant corruption and the abuse of power by central, regional, and local officials.

Such measures would generally complement U.S. economic interests, and movement toward economic reform could offer some likelihood that China would not be moving toward a stricter authoritarian or even fascist system of government. China's pursuit of market-oriented economic objectives also could offer new opportunities for U.S.-China contact and cooperation, such as in the creation of taxation and banking systems. Consistent enforcement of laws against corruption could do much to relieve growing popular discontent and resentment which could result in violent clashes, increased instability, and renewed suppression.

The expansion of foreign trade, foreign investment, and other foreign economic contacts that would come with continued reform could also lead to greater consensus and cooperation on strategic and foreign policy issues such as weapons non-proliferation, technology transfer, and regional security. A China focused on domestic stability and economic development would be expected to pursue policies to reduce regional conflicts. The United States could find China to be a cooperative partner on a number of regional problems that are of concern to the United States and over which China has considerable influence. These could include such things as attempting to convince North Korean leaders to comply with international nuclear inspection programs; intervening to moderate North Korea's hostile posture toward South Korea, where thousands of U.S. troops are stationed; and being willing to compromise and negotiate over competing claims in the Spratly Islands, where China is one of the claimants.

Even in a positive transition scenario, China's progress in some areas important to U.S. interests--such as meaningful political reform and human rights assurances--would likely be slower than progress in areas of common interest such as economic and foreign policy issues. China's authoritarian leadership tradition, its cumbersome communist government structure and institutions, and its not unjustified preoccupation with ensuring social stability even if repression is called for, would probably continue to varying degrees even under the best of circumstances. Some Western observers have even argued that continued authoritarian government in China would be necessary for a positive transition, since economic development and growth occur best in a stable environment and interregional stability is not to be assumed.

As in the late 1970s, when the United States was considering normalizing relations with China, U.S. policymakers would have to balance the benefits of having some U.S. policy objectives met against the costs and tradeoffs to other U.S. policy goals over both the short and long terms. To encourage a positive transition, the United States could consider such economic incentives as facilitating China's entry into the GATT or granting MFN status to China on a permanent basis. Some would urge that, in the interim, political and human rights issues could remain important U.S. concerns, but would become less important relative to the entire context of U.S. policy objectives. Others fear this lessening would conduce toward the third generic outcome ("economically powerful authoritarianism") noted below.

- Degeneration: Decline and failure in China's administrative structure and paralysis of economic reform efforts could result in economic stagnation and contribute to political paralysis, leading to increased popular resentment with more frequent protests and violence. Fearful central leaders could turn increasingly to coercion in an attempt to maintain stability and re-establish some degree of national control.

A significant escalation of violence or repression could spur an exodus of refugees seeking asylum in other countries, perhaps on a massive scale. Countries near China--such as India, Russia, Mongolia, Japan, South Korea--may call for U.S. or international assistance to protect their borders and deal with the consequences of Chinese unrest. China's economic stagnation and the political problems that may accompany it could lead to less certain foreign policies and a riskier strategic environment. Chinese leaders may be too preoccupied with internal matters to become engaged in solving regional problems or potential conflicts; or, conversely, a beleaguered Chinese leadership may see the need to adopt a higher state of military readiness in the region to offset domestic difficulties.

In such a scenario, U.S. businesses could suffer financial losses and U.S. economic and trade relations with other countries could be complicated. The United States would find itself with fewer opportunities to cooperate economically with China. At the same time, economic dislocation and popular discontent would raise the visibility of human rights, democratization, and other issues that are important U.S. policy priorities.

Some experts have argued that this kind of a negative transition for China may ultimately be in U.S. interests despite potentially destabilizing effects in Asian and world affairs. They believe it would be most likely to disenfranchise current communist leaders and lead to the collapse of Chinese communism and possibly the development of two, three or more states. Development of a China-dominated economic zone would be impossible. They emphasize that the United States and China have fundamental underlying conflicts and differing value systems that are unlikely to moderate; the United States and other Western countries should maintain military superiority over China and take no actions that might benefit the current system of government.

- Economically Powerful Authoritarianism: The China that emerges in this scenario holds considerable economic opportunity for the United States among others, but poses dangers for U.S. security, political and longer term economic interests. Chinese economic prosperity presumably would continue to attract important world attention, including from the United States. But without political reform, Beijing would be less constrained in mobilizing this economic power against American interests.

As far as U.S. values are concerned, Chinese leaders would presumably continue the repressive authoritarian measures of the past, justified in the name of "stability." In international affairs, Beijing would likely be less deferential to U.S. and allied concerns regarding security issues, trade practices and the like. Aware that foreign countries increasingly "need" access to China for their own economic well being, Beijing could attempt to isolate the U.S. from its allies or prompt Washington to soft pedal differences with China out of concerns for the American economy. U.S. business interests would likely be split in their political support of China policies. Over the longer term an economically powerful and politically authoritarian China could be diplomatically, technologically and militarily formidable, possessing sufficient power and differences with the United States to pose the most serious single international threat to U.S. interests in Asian and world stability in the 21st century.

APPENDIX

Prominent Leaders In Contemporary China

Jiang Zemin (b.1926) is a moderate reformer who stepped into the spotlight of Chinese national politics in the aftermath of the Tiananmen massacre in 1989. As Beijing's top party man in Shanghai in 1989, Jiang had dealt firmly with demonstrations in that city, but without having to resort to the massive bloodshed and brute forced used in Beijing. He was widely seen as a compromise choice to head a party internally divided over the events at Tiananmen and, more broadly, the course of future reforms. Since being named general secretary of the Party in June of 1989, Jiang has acquired the two other top posts in Chinese politics, chairman of the Central Military Commission and President of the PRC.

Jiang is widely viewed in the Western media as an ineffectual and uncharismatic figurehead who is unlikely to last long as leader in the post-Deng era. Many view him as a transitional figure between Deng and a future leader, just as Hua Guofeng proved a short-lived transitional leader between the Mao and Deng eras. His detractors point to his lack of a commanding presence and his crucial lack of military ties (despite his position as head of the military).

Reports of Jiang's imminent demise, however, may be exaggerated. He has been assiduously working to shore up his power base. He has lavished praise and funding on the military and has stacked key positions in the military, party, and security apparatus with his supporters. Jiang has now promoted to general 25 out of the 29 top military leaders in China. Moreover, Jiang is peppering the department structure of the Central Committee with his former Shanghai associates. Thus, while it may be unlikely that Jiang will serve a long period as the authoritative leader of China, it is not inconceivable that he could retain his titles and play a central role in substantial period of collective leadership.

Qiao Shi (b. 1924) is seen by many as a dark horse candidate to assume power after Deng's death. Qiao has played a prominent role in Beijing's security apparatus. Some in China and abroad view Qiao as a closet liberal and an enthusiast for economic reform, while others see him aligned with old guard communists and thus skeptical of Deng's economic reforms. The majority of Western analysts, however, generally view Qiao as solidly behind the current economic reforms and an advocate of improved Sino-American relations. Qiao's control of the party's personnel files is believed to be an important source of authority. As chairman of the National People's Congress (NPC), Qiao has been working to transform the NPC from a rubber-stamp body to a genuine power base.

BEST COPY AVAILABLE

The current leader most widely hailed by the West is Vice-Premier **Zhu Rongji** (b.1928). Zhu was elevated to the national leadership in the early 1990s from his positions as mayor and top party boss of Shanghai. In 1989 he helped Jiang Zemin engineer the firm, but relatively bloodless, suppression of demonstrations in Shanghai. Zhu soon followed Jiang to Beijing, becoming a vice-premier in 1991 and member of the Party Politburo Standing Committee in 1992. Zhu is believed to be an ardent economic reformer. He maintains a reputation as a commanding figure with an ability to cut through bureaucracy, although this image has been tarnished by the slowness of economic changes under his leadership over the past year. In 1993 Zhu was made senior Vice-Premier and was placed in charge of reining in China's overheating economy.

The conservative standard bearer on the Politburo Standing Committee is Prime Minister **Li Peng** (b.1928). Li is believed to be the Standing Committee member most skeptical of fast-paced economic reforms. As Prime Minister in 1989, Li Peng was widely regarded as the chief architect of the bloody suppression of demonstrators at Tiananmen Square in 1989. Mr. Li has survived his domestic and international unpopularity and has not yet been pushed to the political sidelines as economic reforms have accelerated. In addition to his duties as head of the State Council, Li Peng also heads the Foreign Affairs Small Working Group which essentially makes him China's chief foreign policy architect. Mr. Li reportedly favors a hard-line toward the U.S. concerning human rights.

Other influential Communist Party members who presently reside at the periphery of Politburo politics could conceivably step forward to assume leadership of the Party. Most prominent among these are Yang Shangkun and Zhao Ziyang. **Yang Shangkun** (b.1907) is a still active party elder who maintains impressive credentials with the military. Yang has been a close confidant of Deng Xiaoping and helped deliver the loyalty of the armed forces in the tumultuous period of June 1989. Yang preceded Jiang Zemin as PRC President and served as the second ranking official in charge of the military. Mr. Yang appeared to have overreached politically in 1992 when he, and his half-brother Yang Baibing, were removed from their military posts after Deng apparently concluded that they were building up an independent power base that could threaten the position of Jiang Zemin. But Yang has maintained his impressive political contacts within the military and elsewhere. In January 1995, he toured China's southern Special Economic Zones and emphasized his support for economic reform. Mr. Yang's age precludes him from becoming a long-term successor to Deng, but he could play a crucial role in any succession struggle given his ties with the military. Mr. Yang is believed to be a committed economic reformer and generally pro-American.

Former Prime Minister and Communist Party head **Zhao Ziyang** (b.1919) could still play a role in the leadership struggle. As party head during the spring of 1989 Zhao was blamed for the events at Tiananmen. Following the massacre he was stripped of his posts and temporarily placed under house arrest. Zhao's longer term disgrace, however, has been relatively mild and he remains popular throughout southern China. His return may entail a reversal of the verdicts surrounding the events at Tiananmen which may alienate some elements in the military and others, notably Li Peng. Mr. Zhao is an ardent economic reformer and, unlike other prominent leaders, he is believed to favor some degree of political reform.

63A Chronology of Visit to the People's Republic of China. *February 17–28, 1972*

Editor's Note: The following chronology of events was prepared from White House announcements and outlines public activities of the President and Mrs. Nixon during their visit to the People's Republic of China.

Thursday, February 17

After a departure ceremony on the South Lawn of the White House, the President and Mrs. Nixon went by helicopter to Andrews Air Force Base for the flight to Hawaii, en route to the People's Republic of China.

Arriving at Kaneohe Marine Corps Air Station, Oahu, Hawaii, the President and Mrs. Nixon motored to the residence of the Commanding General, First Marine Brigade, where they remained until Saturday afternoon, February 19, reading and preparing for the China visit.

Saturday, February 19–Sunday, February 20

The President and Mrs. Nixon boarded the Spirit of '76 at Kaneohe Marine Corps Air Station for the 8-hour flight to Guam. Crossing the International Date Line en route, they arrived at Guam International Airport shortly after 5 p.m. on Sunday, February 20, Guam time. They spent the night at Nimitz Hill, the residence of the Commander, Naval Forces, Marianas.

Monday, February 21

At 7 a.m., Guam time, the President and Mrs. Nixon left Guam International Airport for Shanghai, their first stop in the People's Republic of China. They arrived, after a 4-hour flight, at Hung Chiao (Rainbow Bridge) Airport, Shanghai, at 9 a.m., China time, where they were greeted by officials of the People's Republic, headed by Vice Minister of Foreign Affairs Ch'iao Kuan-hua. After refreshments and a tour of the terminal, the Presidential party again boarded the Spirit of '76, accompanied by Vice Minister Ch'iao, Chang Wen-chin and Wang Hai-jung of the Foreign Ministry, a Chinese navigator, radio operator, and three interpreters, for the final leg of the flight to Peking.

At about 11:30 a.m., China time, the party arrived at Capital Airport near Peking. Premier Chou En-lai greeted the President and members of his party, stood with the President for the playing of the national anthems of the two countries, and accompanied the President in a review of the troops.

The Premier then accompanied the President in a motorcade to Peking, to Taio Yu Tai (Angling Terrace), the guest house where the President and Mrs. Nixon would stay during their visit.

In the afternoon, the President met for an hour with Chairman Mao Tse-tung at the Chairman's residence and for an hour with Premier Chou and other officials in plenary session at the Great Hall of the People.

The President and Mrs. Nixon were guests of Premier Chou at a banquet in the Great Hall of the People in the evening.

Tuesday, February 22

After a morning of staff meetings and attention to other White House business, the President met for 4 hours with Premier Chou in the Great Hall.

The First Lady visited the kitchen of the Peking Hotel, where she toured food preparation and cooking areas, and talked with cooks and helpers. She was accompanied by Mme. Lin Chia-mei, wife of Vice Premier Li Hsien-nien, Mme. Chi P'eng-fei, wife of the Minister of Foreign Affairs, and Sun Hsin-mang, head of the revolutionary committee of the hotel. During the tour, Mrs. Nixon told reporters of plans for the People's Republic to present to the people of America two giant pandas, in appreciation for the two musk oxen which were to be

Reprinted from Public Papers of the Presidents of the United States: Richard Nixon, 1972. p. 365-385.

given to the Peking Zoo on behalf of the people of the United States.

In the afternoon, Mrs. Nixon visited the Summer Palace, an imperial residence and garden during the Ching Dynasty. She toured rooms used by the Empress Tzu Hsi and walked in the gardens, viewing the lake Kun Ming and Longevity Hill. She then went to the Peking Zoo and saw the zoo's pandas.

In the evening, the President and First Lady attended a cultural program with Premier and Madame Chou and Chiang Ch'ing, the wife of Chairman Mao Tse-tung. They saw a performance of the ballet, "The Red Detachment of Women."

Wednesday, February 23

The President and Premier Chou met in the afternoon for 4 hours of discussions at the guest house where the President was staying.

The First Lady visited the Evergreen People's Commune on the west edge of Peking. In her hour-long tour, she visited the commune's clinic, where she observed acupuncture treatments, second- and third-grade classrooms, a commune home, agricultural areas and greenhouses, and a dry goods store.

In the afternoon, Mrs. Nixon visited the Peking Glassware Factory and talked with workers making glass flowers and animals.

In the evening, with Premier Chou En-lai, the President and Mrs. Nixon attended a public exhibition of gymnastics, badminton, and table tennis at the Capital Gymnasium.

Thursday, February 24

The President and Mrs. Nixon, accompanied by Vice Premier Li Hsien-nien, drove 35 miles north of Peking to visit the Ba Da Ling portion of the Great Wall of China, and then the tombs of the emperors of the Ming Dynasty.

In the afternoon, the President and Premier Chou met again for 3 hours of discussion. The President and Mrs. Nixon later attended an informal private dinner hosted by Premier Chou in the Great Hall.

Friday, February 25

In the morning, the President and Mrs. Nixon went to the Forbidden City, the site in Peking of the residence of the emperors for some 800 years prior to the early 20th century. They were accompanied by Marshal Yeh Chien-ying, Vice Chairman of the Military Affairs Commission.

In the afternoon, the President met again with Premier Chou for an hour.

The First Lady toured the Peking Children's Hospital.

Marking the final evening of their Peking stay, the President and the First Lady hosted a banquet honoring Premier Chou and other Chinese officials in the Great Hall.

Saturday, February 26

At the Peking Airport, the President and Premier Chou and other officials of the United States and the People's Republic met in plenary session for approximately one hour.

The President and the First Lady, with Premier Chou, then boarded the Premier's plane for the flight to Hangchow, People's Republic of China. From Hangchow Airport, they drove to a guest house on West Lake, a park and recreational site, where they were to spend the night.

In the afternoon, they joined in a walking tour of Flower Fort Park and a boat tour of West Lake, stopping briefly at the Island of Three Towers Reflecting the Moon. Mrs. Nixon also visited the Temple of the Great Buddha.

They were entertained in the evening at a banquet given by the Chekiang Province Revolutionary Committee.

Sunday, February 27

With Premier Chou, the President and the First Lady flew in the Premier's plane from Hangchow Airport to Shanghai. From Shanghai Airport, they motorcaded to the Shanghai Industrial Exhibition, where, with Premier Chou, they toured exhibits of heavy machinery and electronic equipment, handicrafts, surgical techniques, textiles, light industry, musical instruments, toys, and arts and crafts.

Mrs. Nixon also visited the Shanghai Municipal Children's Palace, where she watched demonstrations of dancing, gymnastics, a puppet show, theatrics, swordplay, and art by students at the center. Her guide was Chang Hong, a fifth-grade student.

In the late afternoon, the joint communique agreed upon by the President and Premier Chou was released.

In the evening, the President and First Lady were guests at a banquet in the Shanghai Exhibition Hall hosted by the Shanghai Municipal Revolutionary Committee. Premier Chou and Committee Chairman Chang Ch'un-ch'iao then accompanied the President and Mrs. Nixon to a cultural program of acrobatics in the Exhibition Hall.

Monday, February 28

Premier Chou visited with the President for an hour at the Ching Kiang guest house and then accompanied the Presidential party to the airport for official farewells before the takeoff for the return flight at 10 a.m.

Crossing the International Date Line, the Spirit of '76 arrived at Elmendorf Air Force Base, Anchorage, Alaska, at midnight on Sunday, February 27, Alaska time. The President and the First Lady spent the night at the residence of the Commanding General and left for the final leg of the flight to Washington at 9:40 a.m. on Monday, February 28, Alaska time.

The official party arrived at Andrews Air Force Base near Washington at 9:15 p.m., e.s.t.

64 Remarks on Departure From the White House for a State Visit to the People's Republic of China. *February 17, 1972*

Mr. Vice President, Mr. Speaker, Members of the Congress, and members of the Cabinet:

I want to express my very deep appreciation to all of you who have come here to send us off on this historic mission, and I particularly want to express appreciation to the bipartisan leadership of the House and Senate who are here.

Their presence and the messages that have poured in from all over the country to the White House over the past few days, wishing us well on this trip, I think, underline the statement that I made on July 15, last year, when I announced the visit.

That statement was, as you will recall, that this would be a journey for peace. We, of course, are under no illusions that 20 years of hostility between the People's Republic of China and the United States of America are going to be swept away by one week of talks that we will have there.

But as Premier Chou En-lai said in a toast that he proposed to Dr. Kissinger and the members of the advance group in October, the American people are a great people. The Chinese people are a great people. The fact that they are separated by a vast ocean and great differences in philosophy should not prevent them from finding common ground.

As we look to the future, we must recognize that the Government of the People's Republic of China and the Government of the United States have had great differences. We will have differences in the future. But what we must do is to find a way to see that we can have differences without being enemies in war. If we can make progress toward that goal on this trip, the world will be a much safer world and the chance particularly for all of those young children over there to grow up in a world of peace will be infinitely greater.

I would simply say in conclusion that if there is a postscript that I hope might be written with regard to this trip, it would be the words on the plaque which was left on the moon by our first astronauts when they landed there: "We came in peace for all mankind."

Thank you and goodby.

NOTE: The President spoke at 10:10 a.m. on the South Lawn at the White House. He spoke without referring to notes. The departure ceremony was broadcast live on radio and television.

The President had met with the Bipartisan leaders of the Congress prior to the departure ceremony.

On February 12, 1972, the White House released a list of the members of the official party and biographical data on each member. The list is printed in the Weekly Compilation of Presidential Documents (vol. 8, p. 444).

66 Toasts of the President and Premier Chou En-lai of the People's Republic of China at a Banquet Honoring the President in Peking. *February* 21, 1972

Mr. Prime Minister and all of your distinguished guests this evening:

On behalf of all of your American guests, I wish to thank you for the incomparable hospitality for which the Chinese people are justly famous throughout the world. I particularly want to pay tribute, not only to those who prepared the magnificent dinner, but also to those who have provided the splendid music. Never have I heard American music played better in a foreign land.

Mr. Prime Minister, I wish to thank you for your very gracious and eloquent remarks. At this very moment, through the wonder of telecommunications, more people are seeing and hearing what we say than on any other such occasion in the whole history of the world. Yet, what we say here will not be long remembered. What we do here can change the world.

As you said in your toast, the Chinese people are a great people, the American people are a great people. If our two peoples are enemies the future of this world we share together is dark indeed. But if we can find common ground to work together, the chance for world peace is immeasurably increased.

In the spirit of frankness which I hope will characterize our talks this week, let us recognize at the outset these points: We have at times in the past been enemies. We have great differences today. What brings us together is that we have common interests which transcend those differences. As we discuss our differences, neither of us will compromise our principles. But while we cannot close the gulf between us, we can try to bridge it so that we may be able to talk across it.

So, let us, in these next 5 days, start a long march together, not in lockstep, but on different roads leading to the same goal, the goal of building a world structure of peace and justice in which all may stand together with equal dignity and in which each nation, large or small, has a right to determine its own form of government, free of outside interference or domination. The world watches. The world listens. The world waits to see what we will do. What is the world? In a personal sense, I think of my eldest daughter whose birthday is today. As I think of her, I think of all the children in the world, in Asia, in Africa, in Europe, in the Americas, most of whom were born since the date of the foundation of the People's Republic of China.

What legacy shall we leave our children? Are they destined to die for the hatreds which have plagued the old world, or are they destined to live because we had the vision to build a new world?

There is no reason for us to be enemies. Neither of us seeks the territory of the other; neither of us seeks domination over the other; neither of us seeks to stretch out our hands and rule the world.

Chairman Mao has written, "So many deeds cry out to be done, and always urgently. The world rolls on. Time passes. Ten thousand years are too long. Seize the day, seize the hour."

This is the hour, this is the day for our two peoples to rise to the heights of greatness which can build a new and a better world.

In that spirit, I ask all of you present to join me in raising your glasses to Chairman Mao, to Prime Minister Chou, and to the friendship of the Chinese and American people which can lead to friendship and peace for all people in the world.

NOTE: The President spoke at 8:55 p.m. in the Great Hall of the People. He spoke from a prepared text in response to a toast proposed by Premier Chou. The exchange of toasts was broadcast live on television via satellite.

The Premier spoke in Chinese. His remarks were translated by an interpreter as follows:

Mr. President and Mrs. Nixon, ladies and gentlemen, comrades and friends:

First of all, I have the pleasure on behalf of Chairman Mao Tse-tung and the Chinese Government to extend our welcome to Mr. President and Mrs. Nixon and to our other American guests.

I also wish to take this opportunity to extend on behalf of the Chinese people cordial greetings to the American people on the other side of the great ocean.

President Nixon's visit to our country at the invitation of the Chinese Government provides the leaders of the two countries with an opportunity of meeting in person to seek the normalization of relations between the two countries and also to exchange views on questions of concern to the two sides. This is a positive move in conformity with the desire of the Chinese and American peoples and an event unprecedented in the history of the relations between China and the United States.

The American people are a great people. The Chinese people are a great people. The peoples of our two countries have always been friendly to each other. But owing to reasons known to all, contacts between the two peoples were suspended for over 20 years. Now, through the common efforts of China and the United States, the gate to friendly contacts has finally been opened. At the present time it has become a strong desire of the Chinese and American peoples to promote the normalization of relations between the two countries and work for the relaxation of tension. The people, and the people alone, are the motive force in the making of world history. We are confident that the day will surely come when this common desire of our two peoples will be realized.

The social systems of China and the United States are fundamentally different, and there exist great differences between the Chinese Government and the United States Government. However, these differences should not hinder China and the United States from establishing normal state relations on the basis of the Five Principles of mutual respect for sovereignty and territorial integrity, mutual nonaggression, noninterference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence; still less should they lead to war. As early as 1955 the Chinese Government publicly stated that the Chinese people do not want to have a war with the United States and that the Chinese Government is willing to sit down and enter into negotiations with the United States Government.

This is a policy which we have pursued consistently. We have taken note of the fact that in his speech before setting out for China President Nixon on his part said that "what we must do is to find a way to see that we can have differences without being enemies in war." We hope that, through a frank exchange of views between our two sides to gain a clearer notion of our differences and make efforts to find common ground, a new start can be made in the relations between our two countries.

In conclusion, I propose a toast

—to the health of President Nixon and Mrs. Nixon,

—to the health of our other American guests,

—to the health of all our friends and comrades present, and

—to the friendship between the Chinese and American peoples.

67 Exchange With Reporters at the Great Wall of China. *February* 24, 1972

THE PRESIDENT. I can only say to the media, who, like myself, have never seen the Great Wall before, that it exceeds all expectations. When one stands there and sees the Wall going to the peak of this mountain and realizes that it runs for hundreds of miles, as a matter of fact thousands of miles, over the mountains and through the valleys of this country, that it was built over 2,000 years ago, I think that you would have to conclude that this is a great wall and that it had to be built by a great people.

Many lives, of course, were lost in building it because there was no machinery or equipment at the time. It had to all be done by hand. But under the circumstances, it is certainly a symbol of what China in the past has been and of what China in the future can become. A people who could build a wall like this certainly have a great past to be proud of and a people who have this kind of a past must also have a great future.

My hope is that in the future, perhaps as a result of the beginning that we have made on this journey, that many, many Americans, particularly the young Americans who like to travel so much, will have an opportunity to come here as I have come here today with Mrs. Nixon and the others in our party, that they will be able to see this Wall, that they will think back as I think back to the history of this great people, and that they will have an opportunity, as we have had an opportunity, to know the Chinese people, and know them better.

What is most important is that we have an open world. As we look at this Wall, we do not want walls of any kind between peoples. I think one of the results of our trip, we hope, may be that the walls that are erected, whether they are physical walls like this or whether they are other walls, ideology or philosophy, will not divide peoples in the world; that peoples, regardless of their differences and backgrounds and their philosophies, will have an opportunity to communicate with each other, to know each other, and to share with each other those particular endeavors that will mean peaceful progress in the years ahead.

So, all in all, I would say, finally, we have come a long way to be here today, 16,000 miles. Many things that have occurred on this trip have made me realize that it was worth coming, but I would say, as I look at the Wall, it is worth coming 16,000 miles just to stand here and see the Wall.

Do you agree, Mr. Secretary?

SECRETARY ROGERS. I certainly do, Mr. President. It really is a tremendous privilege we have all had to be here today.

THE PRESIDENT. And I really didn't need the coat.

TRANSLATOR. No, this is great weather.

THE PRESIDENT. It's marvelous. And nobody is ever going to see the hat that I brought. I didn't need it. And my ears are not nearly as cold as they get when I walk sometimes on the streets of New York—in those side streets that go, you know, through the middle of Manhattan and down through those tall buildings—and the wind blows. It's much colder than this.

TRANSLATOR. The Vice Premier says that Mr. President has given a very good speech. [*Laughter*]

THE PRESIDENT. I was supposed to just say a word. The Vice Premier has climbed to the top. But we both decided that this was a job really for Foreign Ministers and not for the Vice Premier and myself.

But I would simply conclude, because I know we have to go on, that while we will not climb to the top today, we are already meeting at the summit in Peking.

Let me ask the members of the press, do you think it was worth coming?

REPORTERS. Yes, sir.

THE PRESIDENT. You know, you are lucky, and my wife is lucky: You get out to see the great points of interest. She gives me a report every night. Of course, I would not trade. My talks are very interesting, too.

Q. Are you finding, Mr. President, the afterhours events as entertaining as we are, such as the athletic events?

THE PRESIDENT. Fantastic. I thought not only the ballet was great, Tom [Jarriel, ABC News], but I also thought that the athletic event last night was just superb. As you know, I have a rather casual interest in athletics, and it has been so reported. But the gymnastic events—I have never seen a tumbler like the last one. I have never seen that move made by a tumbler before. I didn't think it was possible to make that move. Then, of course, the ping pong players, unbelievable, particularly the young ones, those little girls, those teenaged boys! I used to play a little ping pong years ago—I thought I played it. Now I realize I was playing another game, except for the score.

Then too, the ballet, of course, as we all know, had its message and that was one of its purposes but also, while it was a powerful message and intended for that, it was also very dramatic and excellent theater, excellent dancing, excellent music, and really superb acting. I was very impressed.

I have seen ballets all over the world, including the Soviet Union and the United States. This is certainly the equal of any ballet that I have seen, in terms of production. I thought some of the production effects were very dramatic, too—the scene where they showed the guerrilla forces going across the stage at the end at great speed in the dark. I can't describe it, but certainly people who had a chance to see it on television will remember it. And I thought another thing was the vivid effect, when they had the rifle fire, of having the gunpowder smoke float back into the audience so that we could smell it. You had a feel there of realism that was quite vivid.

Reporter. Thank you very much.

NOTE: The exchange began at approximately 10 a.m. following the President's tour of the Ba Da Ling portion of the Great Wall.

68 Exchange With Reporters at the Tombs of the Emperors of the Ming Dynasty. *February* 24, 1972

The President. I have not had an opportunity, of course, to see this before. The only thing I think is comparable to it in the world is the Valley of Kings in Egypt. That is a very different time, of course, and a different country.

But when one sees these tombs, while this does not go back very far in China's history—its history goes back thousands of years rather than hundreds—it is again, of course, a reminder that they are very proud in terms of cultural development and the rest, a rich history of the Chinese people.

As I said earlier, it is worth coming 16,000 miles to see the Wall, and it is worth coming that far to see this, too.

Q. Will you be recommending that Americans apply for visas to have an opportunity to be tourists in China?

The President. I won't comment on that question at this point. When we complete our meetings, we will see what kind of recommendations will be made in that respect. Certainly speaking in a general sense, I think it would be very valuable and worthwhile for Americans and, for that matter, people in all countries, to be able to visit China. It is a great and old civilization, these people who have given so much to the world in terms of culture and development in many ways.

It is important as we think of ourselves as members of the family of man, that we know them and know them better, and I would hope that in the future that my children, and their children as well, would have the opportunity to come here.

I would put it this way: That when we think of the world, most of us think of our own countries, some even our own States, and some just our cities. We should think of the whole world, and we have not known Asia well enough. And when you speak of Asia, the great country of China is a country we have not known long enough. That communication has been cut for the last 20 years, and in the future I would hope one of the developments that would occur as a result of our trip is that apart from the relations between governments, that people will be able to come here and that, of course, Chinese people would be able to come to the United States.

I don't mean to suggest that that exchange of people solves the problems of the world or problems between governments. But it so enriches the lives of people to know other civilizations and not to live simply on their own little island.

That is why this experience, I am sure, is not only an interesting experience for us but for the members of the press. I think it reminds us that all of us must work for an open world where people of different cultures, different philosophies, and so forth, may at least have an opportunity to know each other.

NOTE: The exchange began at approximately 1 p.m. following the President's tour of the Ming Tombs.

69 Toasts of the President and Premier Chou En-lai of China at a Banquet Honoring the Premier in Peking.

February 25, 1972

Mr. Prime Minister and our very distinguished guests from the People's Republic of China and the United States of America:

It is a great privilege while we are guests in your country to be able to welcome you and the Chinese who are present here as our guests this evening.

On behalf of Mrs. Nixon and all of the members of our official party, I want to express our deep appreciation for the boundless and gracious hospitality which you have extended to us.

As you know, it is the custom in our country that the members of the press have the right to speak for themselves and that no one in government can speak for them. But I am sure that all those from the American press who are here tonight will grant me the rare privilege of speaking for the press in extending their appreciation to you and your government for the many courtesies you have extended to them.

You have made it possible for the story of this historic visit to be read, seen, and heard by more people all over the world than on any previous occasion in history.

Yesterday, along with hundreds of millions of viewers on television, we saw what is truly one of the wonders of the world, the Great Wall. As I walked along the Wall, I thought of the sacrifices that went into building it; I thought of what it showed about the determination of the Chinese people to retain their independence throughout their long history; I thought about the fact that the Wall tells us that China has a great history and that the people who built this wonder of the world also have a great future.

The Great Wall is no longer a wall

dividing China from the rest of the world, but it is a reminder of the fact that there are many walls still existing in the world which divide nations and peoples.

The Great Wall is also a reminder that for almost a generation there has been a wall between the People's Republic of China and the United States of America.

In these past 4 days we have begun the long process of removing that wall between us. We began our talks recognizing that we have great differences, but we are determined that those differences not prevent us from living together in peace.

You believe deeply in your system, and we believe just as deeply in our system. It is not our common beliefs that have brought us together here, but our common interests and our common hopes, the interest that each of us has to maintain our independence and the security of our peoples and the hope that each of us has to build a new world order in which nations and peoples with different systems and different values can live together in peace, respecting one another while disagreeing with one another, letting history rather than the battlefield be the judge of their different ideas.

Mr. Prime Minister, you have noted that the plane which brought us here is named the Spirit of '76. Just this week, we have celebrated in America the birth of George Washington, the Father of our Country, who led America to independence in our Revolution and served as our first President.

He bade farewell at the close of his term with these words to his countrymen: "Observe good faith and justice toward all nations. Cultivate peace and harmony with all."

It is in that spirit, the spirit of '76, that I ask you to rise and join me in a toast to Chairman Mao, to Premier Chou, to the people of our two countries, and to the hope of our children that peace and harmony can be the legacy of our generation to theirs.

NOTE: The President spoke at 9:05 p.m. in the Great Hall of the People. He spoke from a prepared text. The exchange of toasts was broadcast live on television via satellite.

Premier Chou responded in Chinese. His remarks were translated by an interpreter as follows:

Mr. President and Mrs. Nixon, ladies and gentlemen, comrades and friends:

First of all, on behalf of all my Chinese colleagues here and in my own name, I would like to express appreciation to President and Mrs. Nixon for inviting us to this banquet.

The President and his party are leaving Peking tomorrow to visit southern parts of China. In the past few days President Nixon met with Chairman Mao Tse-tung and our two sides held a number of further talks in which we exchanged views on the normalization of relations between China and the United States and on other questions of concern to the two sides.

There exist great differences of principle between our two sides. Through earnest and frank discussions a clearer knowledge of each other's positions and stands has been gained. This has been beneficial to both sides.

The times are advancing and the world changing. We are deeply convinced that the strength of the people is powerful and that whatever zigzags and reverses there will be in the development of history, the general trend of the world is definitely towards light and not darkness.

It is the common desire of the Chinese and American peoples to enhance their mutual understanding and friendship and promote the normalization of relations between China and the United States. The Chinese Government and people will work unswervingly towards this goal.

I now propose a toast to the great American people, to the great Chinese people, to the friendship of the Chinese and American peoples, to the health of President Nixon and Mrs. Nixon, and to the health of all the other American guests present.

70 Toasts of the President and Chairman Nan P'ing at a Banquet in Hangchow. *February 26, 1972*

Mr. Chairman, Mr. Prime Minister, and all of our friends from China and the United States:

When we were planning the schedule for our visit to the People's Republic of China, the Prime Minister determined what cities we would visit. Our time would only permit Peking, of course, and two other cities in this great country. And the Prime Minister naturally said one city must be Shanghai, the biggest city in China. And then, out of all of the other great cities in China, he said the other city must be Hangchow.

Now that we have been here, now that we have seen the splendor of this city, we realize why it has been said that heaven is above and beneath are Hangchow and Soochow. I am sure that the proud citizens of this province would say that Peking is the head of China, but Hangchow is the heart of China.

Tonight I wish to express appreciation on behalf of all of our party for this wonderful banquet and particularly for the beautiful decorations that we see here and on these tables which are a tribute to the great sense of beauty for which Hangchow is famous all over the world.

I think that since we have applauded the Chairman of the Revolutionary Committee and others, that all of us, too, would like to join in applause for those who prepared this wonderful banquet, who prepared these beautiful decorations, and who served us so beautifully tonight.

Mr. Chairman, Mr. Prime Minister, I propose tonight a toast to the health of Chairman Mao Tse-tung, to the health of Premier Chou, to the friendship between the Chinese people and the American people, and to our children and their children. May their future be as bright as the beauty of Hangchow.

On this informal occasion, may I express my appreciation to my Chinese voice, to Mrs. Chang. I listened to her translation. She got every word right.

NOTE: The President spoke at approximately 9:20 p.m. in the Hangchow Hotel. He spoke from a prepared text in response to a toast proposed by Nan P'ing, Chairman of the Chekiang Province Revolutionary Committee.

Mrs. Chang Fan-chih served as interpreter for both the President and Chairman Nan. She translated Chairman Nan's remarks, delivered in Chinese, as follows:

Mr. President and Mrs. Nixon, ladies and gentlemen, comrades, and friends:

We feel happy that President Nixon and Mrs. Nixon and all our other American guests have come here to Hangchow today for a visit. I would like to express welcome to you on behalf of the Revolutionary Committees of Chekiang Province and Hangchow City.

I would also like to take this opportunity to express thanks to President Nixon because the precious gift that has been given to the leaders and people of our country by Mr. President, the redwood trees, are planted here in our city, and we hope that they will continuously grow taller and stronger as a symbol of the friendship between the Chinese and American people.

Hangchow is a scenic spot of well-known fame in China, and we hope that aside from your busy work, you will be able to get some good rest during your stay here.

I propose a toast to the health of President Nixon and Mrs. Nixon, to the health of all our other American guests, to the health of all our friends and comrades present here, and to the friendship between the peoples of China and the United States.

71 Joint Statement Following Discussions With Leaders of the People's Republic of China. *February 27, 1972*

PRESIDENT Richard Nixon of the United States of America visited the People's Republic of China at the invitation of Premier Chou En-lai of the People's Republic of China from February 21 to February 28, 1972. Accompanying the President were Mrs. Nixon, U.S. Secretary of State William Rogers, Assistant to the President Dr. Henry Kissinger, and other American officials.

President Nixon met with Chairman Mao Tse-tung of the Communist Party of China on February 21. The two leaders had a serious and frank exchange of views on Sino-U.S. relations and world affairs.

During the visit, extensive, earnest, and frank discussions were held between President Nixon and Premier Chou En-lai on the normalization of relations between the United States of America and the People's Republic of China, as well as on other matters of interest to both sides. In addition, Secretary of State William Rogers and Foreign Minister Chi P'eng-fei held talks in the same spirit.

President Nixon and his party visited Peking and viewed cultural, industrial and agricultural sites, and they also toured Hangchow and Shanghai where, continuing discussions with Chinese leaders, they viewed similar places of interest.

The leaders of the People's Republic of China and the United States of America found it beneficial to have this opportunity, after so many years without contact, to present candidly to one another their views on a variety of issues. They reviewed the international situation in which important changes and great upheavals are taking place and expounded their respective positions and attitudes.

The U.S. side stated: Peace in Asia and peace in the world requires efforts both to reduce immediate tensions and to eliminate the basic causes of conflict. The United States will work for a just and secure peace: just, because it fulfills the aspirations of peoples and nations for freedom and progress; secure, because it removes the danger of foreign aggression. The United States supports individual freedom and social progress for all the peoples of the world, free of outside pressure or intervention. The United States believes that the effort to reduce tensions is served by improving communication between countries that have different ideologies so as to lessen the risks of confrontation through accident, miscalculation or misunderstanding. Countries should treat each other with mutual respect and be willing to compete peacefully, letting performance be the ultimate judge. No country should claim infallibility and each country should be prepared to re-examine its own attitudes for the common good. The United States stressed that the peoples of Indochina should be allowed to determine their destiny without outside intervention; its constant primary objective has been a negotiated solution; the eight-point proposal put forward by the Republic of Vietnam and the United States on January 27, 1972 represents a basis for the attainment of that objective; in the absence of a negotiated settlement the United States envisages the ultimate withdrawal of all U.S. forces from the region consistent with the aim of self-determination for each country of Indochina. The United States will maintain its close ties with and support for the Republic of Korea; the United States will support efforts of the Republic of Korea to seek a relaxation of tension and increased communication in the Korean peninsula. The United States places the highest value on its friendly relations with Japan; it will continue to develop the existing close bonds. Consistent with the United Nations Security Council Resolution of December 21, 1971, the United States favors the continuation of the ceasefire between India and Pakistan and the withdrawal of all military forces to within their own territories and to their own sides of the ceasefire line in Jammu and Kashmir; the United States supports the right of the peoples of South Asia to shape their own future in peace, free of military threat, and without having the area become the subject of great power rivalry.

The Chinese side stated: Wherever there is oppression, there is resistance. Countries want independence, nations want liberation and the people want revolution—this has become the irresistible trend of history. All nations, big or small, should be equal; big nations should not bully the small and strong nations should not bully the weak. China will never be a superpower and it opposes hegemony and power politics of any kind. The Chinese side stated that it firmly supports the struggles of all the oppressed people and nations for freedom and liberation and that the people of all countries have the right to choose their social systems according to their own wishes and the right to safeguard the independence, sovereignty and territorial integrity of their own countries and oppose foreign aggression, interference, control and subversion. All foreign troops should be withdrawn to their own countries.

The Chinese side expressed its firm support to the peoples of Vietnam, Laos, and Cambodia in their efforts for the attainment of their goal and its firm support to the seven-point proposal of the Provisional Revolutionary Government of the Republic of South Vietnam and the elaboration of February this year on the two key problems in the proposal, and to the Joint Declaration of the Summit Conference of the Indochinese Peoples. It firmly supports the eight-point program for the peaceful unification of Korea put forward by the Government of the Democratic People's Republic of Korea on April 12, 1971, and the stand for the abolition of the "U.N. Commission for the Unification and Rehabilitation of Korea." It firmly opposes the revival and outward expansion of Japanese militarism and firmly supports the Japanese people's desire to build an independent, democratic, peaceful and neutral Japan. It firmly maintains that India and Pakistan should, in accordance with the United Nations resolutions on the India-Pakistan question, immediately withdraw all their forces to their respective territories and to their own sides of the ceasefire line in Jammu and Kashmir and firmly supports the Pakistan Government and people in their struggle to preserve their independence and sovereignty and the people of Jammu and Kashmir in their struggle for the right of self-determination.

There are essential differences between China and the United States in their social systems and foreign policies. However, the two sides agreed that countries, regardless of their social systems, should conduct their relations on the principles of respect for the sovereignty and territorial integrity of all states, nonaggression against other states, noninterference in the internal affairs of other states, equality and mutual benefit, and peaceful coexistence. International disputes should be settled on this basis, without resorting to the use or threat of force. The United States and the People's Republic of China are prepared to apply these principles to their mutual relations.

With these principles of international relations in mind the two sides stated that:

- —progress toward the normalization of relations between China and the United States is in the interests of all countries;
- —both wish to reduce the danger of international military conflict;
- —neither should seek hegemony in the Asia-Pacific region and each is opposed to efforts by any other country or group of countries to establish such hegemony; and
- —neither is prepared to negotiate on behalf of any third party or to enter into agreements or understandings with the other directed at other states.

Both sides are of the view that it would be against the interests of the peoples of the world for any major country to collude with another against other countries, or for major countries to divide up the world into spheres of interest.

The two sides reviewed the long-standing serious disputes between China and the United States. The Chinese side reaffirmed its position: The Taiwan question is the crucial question obstructing the normalization of relations between China and the United States; the Government of the People's Republic of China is the sole legal government of China; Taiwan is a province of China which has long been returned to the motherland; the liberation of Taiwan is China's internal affair in which no other country has the right to interfere; and all U.S. forces and military installations must be withdrawn from Taiwan. The Chinese Government firmly opposes any activities which aim at the creation of "one China, one Taiwan," "one China, two governments," "two Chinas," and "independent Taiwan" or advocate that "the status of Taiwan remains to be determined."

The U.S. side declared: The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States Government does not challenge that position. It reaffirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves. With this prospect in mind, it affirms the ultimate objective of the withdrawal of all U.S. forces and military installations from Taiwan. In the meantime, it will progressively reduce its forces and military installations on Taiwan as the tension in the area diminishes.

The two sides agreed that it is desirable to broaden the understanding between the two peoples. To this end, they discussed specific areas in such fields as science, technology, culture, sports and journalism, in which people-to-people contacts and exchanges would be mutually beneficial. Each side undertakes to facilitate the further development of such contacts and exchanges.

Both sides view bilateral trade as another area from which mutual benefit can be derived, and agreed that economic relations based on equality and mutual benefit are in the interest of the people of the two countries. They agree to facilitate the progressive development of trade between their two countries.

The two sides agreed that they will stay in contact through various channels, including the sending of a senior U.S. representative to Peking from time to time for concrete consultations to further the normalization of relations between the two countries and continue to exchange views on issues of common interest.

The two sides expressed the hope that the gains achieved during this visit would open up new prospects for the relations between the two countries. They believe that the normalization of relations between the two countries is not only in the interest of the Chinese and American peoples but also contributes to the relaxation of tension in Asia and the world.

President Nixon, Mrs. Nixon and the American party expressed their appreciation for the gracious hospitality shown them by the Government and people of the People's Republic of China.

NOTE: The joint statement was released at Shanghai, People's Republic of China.

On the same day, the White House released a statement by Press Secretary Ronald L. Ziegler and the transcript of a news briefing on the joint statement. Participants in the news briefing were Henry A. Kissinger, Assistant to the President for National Security Affairs, and Marshall Green, Assistant Secretary of State for East Asian and Pacific Affairs. The statement and the transcript are printed in the Weekly Compilation of Presidential Documents (vol. 8, pp. 480 and 476).

On February 14, 1972, the White House released a statement by Press Secretary Ziegler on further relaxation of trade with the People's Republic of China. The statement is printed in the Weekly Compilation of Presidential Documents (vol. 8, p. 438).

On February 21, the White House released a statement and the transcript of a news briefing by Press Secretary Ziegler on the President's meeting with Chairman Mao Tse-tung. The statement is printed in the Weekly Compilation of Presidential Documents (vol. 8, p. 466).

72 Toasts of the President and Chairman Chang Ch'un-ch'iao at a Banquet in Shanghai. *February 27, 1972*

Mr. Prime Minister, Chairman Chang, and our Chinese and American friends:

This magnificent banquet marks the end of our stay in the People's Republic of China. We have been here a week. This was the week that changed the world.

As we look back over this week, we think of the boundless hospitality that has been extended to all of us by our Chinese friends.

We have, today, seen the progress of modern China. We have seen the matchless wonders of ancient China. We have seen also the beauty of the countryside, the vibrancy of a great city, Shanghai. All this we enjoyed enormously.

But most important was the fact that we had the opportunity to have talks with Chairman Mao, with Prime Minister Chou En-lai, with the Foreign Minister and other people in the government.

The joint communique which we have issued today summarizes the results of our talks. That communique will make headlines around the world tomorrow. But what we have said in that communique is not nearly as important as what we will do in the years ahead to build a bridge across 16,000 miles and 22 years of hostility which have divided us in the past.

What we have said today is that we shall build that bridge. And because the Chinese people and the American people, as the Prime Minister has said, are a great people, we can build that long bridge.

To do so requires more than the letters, the words of the communique. The letters and the words are a beginning, but the actions that follow must be in the spirit which characterized our talks.

With Chairman Mao, with the Prime Minister, and with others with whom we have met, our talks have been characterized by frankness, by honesty, by determination, and above all, by mutual respect.

Our communique indicates, as it should, some areas of difference. It also indicates some areas of agreement. To mention only one that is particularly appropriate here in Shanghai, is the fact that this great city, over the past, has on many occasions been the victim of foreign aggression and foreign occupation. And we join the Chinese people, we the American people, in our dedication to this principle: That never again shall foreign domination, foreign occupation, be visited upon this city or any part of China or any independent country in this world.

Mr. Prime Minister, our two peoples tonight hold the future of the world in our hands. As we think of that future, we are dedicated to the principle that we can build a new world, a world of peace, a world of justice, a world of independence for all nations.

If we succeed in working together where we can find common ground, if we can find the common ground on which we can both stand, where we can build the bridge between us and build a new world, generations in the years ahead will look back and thank us for this meeting that we have held in this past week. Let the great Chinese people and the great American people be worthy of the hopes and ideals of the world, for peace and justice and progress for all.

In that spirit, I ask all of you to join in a toast to the health of Chairman Mao, of Prime Minister Chou En-lai, and to all of our Chinese friends here tonight, and our American friends, and to that friendship between our two peoples to which Chairman Chang has referred so eloquently.

NOTE: The President spoke at approximately 8:30 p.m. in the Shanghai Exhibition Hall. He spoke from a prepared text in response to a toast proposed by Chang Ch'un-ch'iao, Chairman of the Shanghai Municipal Revolutionary Committee.

Chairman Chang spoke in Chinese. His remarks were translated by an interpreter as follows:

Mr. President and Mrs. Nixon, ladies and gentlemen, friends and comrades:

After having visited Peking and Hangchow, President Nixon and Mrs. Nixon and our other American guests have today come to Shanghai. On behalf of the Shanghai Municipal Revolutionary Committee, I extend our welcome to all of you.

I would like to take this opportunity to extend to the great American people the good wishes and cordial greetings of the people of Shanghai.

During his current visit to our country, President Nixon had a meeting with Chairman Mao Tse-tung and held many talks with Premier

Chou En-lai. The two sides had a serious and frank exchange of views on the normalization of the relations between China and the United States and on matters of interest to the two sides.

We people of Shanghai, like the people throughout our country, welcome this positive action which conforms to the common desires of the peoples of China and the United States. And we are glad that it is in Shanghai today that we have reached agreement on the joint communique after the discussions which took place over the past few days.

Shanghai is a city where our people have relatively a lot of contacts with peoples from other countries. In the 23 years since the liberation of this city in 1949, fundamental changes have taken place and our city has now been preliminarily transformed and built into a comprehensive socialist industrial base of our country, but this means that we have only completed the first step of our long march and at present the industry of Shanghai is not yet very advanced and in some aspects it is still rather backward.

More heavy and arduous tasks still await us, and the working class and the people of the entire Shanghai municipality are continuing to work hard under the leadership of the Communist Party of China along the road charted by Chairman Mao Tse-tung, the road of maintaining independence and keeping the initiative in our own hands and relying on our own efforts.

On the eve of the departure from our country for home of Mr. President and Mrs. Nixon, and our other American guests, I would like to propose a toast to the health of President Nixon and Mrs. Nixon, to the health of our other American guests, and to the friendship between the great Chinese people and the great American people.

73 Remarks at Andrews Air Force Base on Returning From the People's Republic of China. *February 28, 1972*

Mr. Vice President, Members of the Congress, members of the Cabinet, members of the diplomatic corps, and ladies and gentlemen:

I want to express my very deep appreciation, and the appreciation of all of us, for this wonderfully warm welcome that you have given us and for the support that we have had on the trip that we have just completed from Americans of both political parties and all walks of life across this land.

Because of the superb efforts of the hardworking members of the press who accompanied us—they got even less sleep than I did—millions of Americans in this past week have seen more of China than I did. Consequently, tonight I would like to talk to you not about what we saw but about what we did, to sum up the results of the trip and to put it in perspective.

When I announced this trip last July, I described it as a journey for peace. In the last 30 years, Americans have in three different wars gone off by the hundreds of thousands to fight, and some to die, in Asia and in the Pacific. One of the central motives behind my journey to China was to prevent that from happening a fourth time to another generation of Americans.

As I have often said, peace means more than the mere absence of war. In a technical sense, we were at peace with the People's Republic of China before this trip, but a gulf of almost 12,000 miles and 22 years of noncommunication and hostility separated the United States of America from the 750 million people who live in the People's Republic of China, and that is one-fourth of all the people in the world.

As a result of this trip, we have started the long process of building a bridge across that gulf, and even now we have something better than the mere absence of war. Not only have we completed a week of intensive talks at the highest levels, we have set up a procedure whereby we can continue to have discussions in the future. We have demonstrated that nations with very deep and fundamental differences can learn to discuss those differences calmly, rationally, and frankly, without compromising their principles. This is the basis of a structure for peace, where we can talk about differences rather than fight about them.

The primary goal of this trip was to reestablish communication with the People's Republic of China after a generation of hostility. We achieved that goal.

Let me turn now to our joint communique.

We did not bring back any written or unwritten agreements that will guarantee peace in our time. We did not bring home any magic formula which will make unnecessary the efforts of the American people to continue to maintain the strength so that we can continue to be free.

We made some necessary and important beginnings, however, in several areas. We entered into agreements to expand cultural, educational, and journalistic contacts between the Chinese and the American people. We agreed to work to begin and broaden trade between our two countries. We have agreed that the communications that have now been established between our governments will be strengthened and expanded.

Most important, we have agreed on some rules of international conduct which will reduce the risk of confrontation and war in Asia and in the Pacific.

We agreed that we are opposed to domination of the Pacific area by any one power. We agreed that international disputes should be settled without the use of the threat of force and we agreed that we are prepared to apply this principle to our mutual relations.

With respect to Taiwan, we stated our established policy that our forces overseas will be reduced gradually as tensions ease, and that our ultimate objective is to withdraw our forces as a peaceful settlement is achieved.

We have agreed that we will not negotiate the fate of other nations behind their backs, and we did not do so at Peking. There were no secret deals of any kind. We have done all this without giving up any United States commitment to any other country.

In our talks, the talks that I had with the leaders of the People's Republic and that the Secretary of State had with the office of the Government of the People's Republic in the foreign affairs area, we both realized that a bridge of understanding that spans almost 12,000 miles and 22 years of hostility can't be built in one week of discussions. But we have agreed to begin to build that bridge, recognizing that our work will require years of patient effort. We made no attempt to pretend that major differences did not exist between our two governments, because they do exist.

This communique was unique in honestly setting forth differences rather than trying to cover them up with diplomatic doubletalk.

One of the gifts that we left behind in Hangchow was a planted sapling of the American redwood tree. As all Californians know, and as most Americans know, redwoods grow from saplings into the giants of the forest. But the process is not one of days or even years; it is a process of centuries.

Just as we hope that those saplings, those tiny saplings that we left in China, will grow one day into mighty redwoods, so we hope, too, that the seeds planted on this journey for peace will grow and prosper into a more enduring structure for peace and security in the Western Pacific.

But peace is too urgent to wait for centuries. We must seize the moment to move toward that goal now, and this is what we have done on this journey.

As I am sure you realize, it was a great experience for us to see the timeless wonders of ancient China, the changes that are being made in modern China. And one fact stands out, among many others, from my talks with the Chinese leaders: It is their total belief, their total dedication, to their system of government. That is their right, just as it is the right of any country to choose the kind of government it wants.

But as I return from this trip, just as has been the case on my return from other trips abroad which have taken me to over 80 countries, I come back to America with an even stronger faith in our system of government.

As I flew across America today, all the way from Alaska, over the Rockies, the Plains, and then on to Washington, I thought of the greatness of our country and, most of all, I thought of the freedom, the opportunity, the progress that 200 million Americans are privileged to enjoy. I realized again this is a beautiful country. And tonight my prayer and my hope is that as a result of this trip, our children will have a better chance to grow up in a peaceful world.

Thank you.

NOTE: The President spoke at 9:30 p.m. at Andrews Air Force Base, Md. He spoke from a prepared text. Vice President Spiro T. Agnew had welcomed the President as follows:

Mr. President, Mrs. Nixon, distinguished guests, ladies and gentlemen:

For more than a week we have witnessed through the miracle of satellite television, the sights and sounds of a society that has been closed to Americans for over two decades. We have been made aware of many new things in that society through this visit, Mr. President. We have witnessed much of what you have done with feelings of pride and pleasure and an immense curiosity that has certainly not been diminished by the amount of attention paid by the media to this visit.

I must confess that we have been surprised to some extent by your facility with chopsticks, Mr. President, and by the equal facility of the Chinese orchestra which rendered "America the Beautiful."

But I will say that the week's undertakings were intensively covered—I think that is the understatement of this week, Mr. President—and we enjoyed every minute of it as we watched with pride and approval the way you and the members of your party and our gracious First Lady conducted yourselves.

Speaking of our First Lady, I don't think I can let this occasion pass without reminding you that I predicted what a tremendous asset she would be in the future to American diplomacy and she didn't let me down a bit. As a matter of fact, she did an absolutely outstanding job under the most difficult, unpredictable circumstances.

Mr. President, just before you left to go to China, you stated that although the Chinese and the American people were separated by a vast ocean and by great differences of philosophy, there was no reason why with effort we could not undertake to diminish the tensions between our countries. I believe you have crossed that ocean in a successful effort to do just that.

Because of your visit, the Chinese and the American people stand further removed from the kind of confrontation that the world has feared for many decades. And we, the American people, are tremendously grateful for that effort on your part.

With due regard to the lateness of the hour and the fatigue that you must feel after so much intensive discussion, preparation, and the time changes and the long flight, I think I can close by simply saying that we are glad to have you back, and we feel easier tonight because of the trip that you took.

Visit of Vice Premier Deng of China

Agreement Between the United States and China on Cooperation in Science and Technology. January 31, 1979

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA ON COOPERATION IN SCIENCE AND TECHNOLOGY

The Government of the United States of America and the Government of the People's Republic of China (hereinafter referred to as the Contracting Parties);

Acting in the spirit of the Joint Communique on the Establishment of Diplomatic Relations between the United States of America and the People's Republic of China;

Recognizing that cooperation in the fields of science and technology can promote the well-being and prosperity of both countries;

Affirming that such cooperation can strengthen friendly relations between both countries;

Wishing to establish closer and more regular cooperation between scientific and technical entities and personnel in both countries;

Have agreed as follows:

ARTICLE 1

1. The Contracting Parties shall develop cooperation under this Agreement on the basis of equality, reciprocity and mutual benefit.

2. The principal objective of this Agreement is to provide broad opportunities for cooperation in scientific and technological fields of mutual interest, thereby promoting the progress of science and technology for the benefit of both countries and of mankind.

Reprinted from Public Papers of the Presidents of the Untied States: Jimmy Carter, 1979. p. 200-213 (Book 1)

ARTICLE 2

Cooperation under this Agreement may be undertaken in the fields of agriculture, energy, space, health, environment, earth sciences, engineering, and such other areas of science and technology and their management as may be mutually agreed, as well as educational and scholarly exchange.

ARTICLE 3

Cooperation under this Agreement may include:

a. Exchange of scientists, scholars, specialists and students;

b. Exchange of scientific, scholarly, and technological information and documentation;

c. Joint planning and implementation of programs and projects;

d. Joint research, development and testing, and exchange of research results and experience between cooperating entities;

e. Organization of joint courses, conferences and symposia;

f. Other forms of scientific and technological cooperation as may be mutually agreed.

ARTICLE 4

Pursuant to the objectives of this Agreement, the Contracting Parties shall encourage and facilitate, as appropriate, the development of contacts and cooperation between government agencies, universities, organizations, institutions, and other entities of both countries, and the conclusion of accords between such bodies for the conduct of cooperative activities. Both sides will further promote, consistent with such cooperation and where appropriate, mutually beneficial bilateral economic activities.

ARTICLE 5

Specific accords implementing this Agreement may cover the subjects of cooperation, procedures to be followed, treatment of intellectual property, funding and other appropriate matters. With respect to funding, costs shall be borne as mutually agreed. All cooperative activities under this Agreement shall be subject to the availability of funds.

ARTICLE 6

Cooperative activities under this Agreement shall be subject to the laws and regulations in each country.

ARTICLE 7

Each Contracting Party shall, with respect to cooperative activities under this Agreement, use its best efforts to facilitate prompt entry into and exit from its territory of equipment and personnel of the other side, and also to provide access to relevant geographic areas, institutions, data and materials.

ARTICLE 8

Scientific and technological information derived from cooperative activities under this Agreement may be made available, unless otherwise agreed in an implementing accord under Article 5, to the world scientific community through customary channels and in accordance with the normal procedures of the participating entities.

ARTICLE 9

Scientists, technical experts, and entities of third countries or international organizations may be invited, upon mutual consent of both sides, to participate in projects and programs being carried out under this Agreement.

ARTICLE 10

1. The Contracting Parties shall establish a US–PRC Joint Commission on Scientific and Technological Cooperation, which shall consist of United States and Chinese parts. Each Contracting Party shall designate a co-chairman and its members of the Commission. The Commission shall adopt procedures for its operation, and shall ordinarily meet once a year in the United States and the People's Republic of China alternately.

2. The Joint Commission shall plan and coordinate cooperation in science and technology, and monitor and facilitate such cooperation. The Commission shall also consider proposals for the further development of cooperative activities in specific areas and recommend measures and programs to both sides.

3. To carry out its functions, the Commission may when necessary create temporary or permanent joint subcommittees or working groups.

4. During the period between meetings of the Commission, additions or amendments may be made to already approved cooperative activities, as may be mutually agreed.

5. To assist the Joint Commission, each Contracting Party shall designate an Executive Agent. The Executive Agent on the United States side shall be the Office of Science and Technology Policy; and on the side of the People's Republic of China, the State Scientific and Technological Commission. The Executive Agents shall collaborate closely to promote proper implementation of all activities and programs. The Executive Agent of each Contracting Party shall be responsible for coordinating the implementation of its side of such activities and programs.

ARTICLE 11

1. This Agreement shall enter into force upon signature and shall remain in force for five years. It may be modified or extended by mutual agreement of the Parties.

2. The termination of this Agreement shall not affect the validity or duration of any implementing accords made under it.

DONE at Washington this 31st day of January, 1979, in duplicate in the English and Chinese languages, both equally authentic.

For the Government of the United States of America:

JIMMY CARTER

For the Government of the People's Republic of China:

DENG XIAOPING

Visit of Vice Premier Deng of China

United States Letter Implementing Understandings on Educational Exchange, Agriculture, and Space as Part of the Agreement on Science and Technology. January 31, 1979

Dear Mr. Minister:

With reference to the Agreement Between the United States of America and the People's Republic of China on Cooperation in Science and Technology, signed in Washington today, it is the understanding of the Government of the United States of America that existing understandings in the fields of education, agriculture and space will become a part of the formal specific accords to be concluded in those fields under Article 5 of the Agreement.

Attached as annexes to this letter are the Understanding on the Exchange of Students and Scholars reached in Washington in October 1978, the Understanding on Agricultural Exchange reached in Beijing in November 1978, and the Understanding on Cooperation in Space Technology reached in Washington in December 1978.

If the Government of the People's Republic of China confirms this understanding and the texts of the understandings annexed hereto, this letter and the letter of confirmation of the People's Republic of China will constitute an agreement relating to these fields between our two governments.

Sincerely,

FRANK PRESS
Director, Office of Science and Technology Policy

[His Excellency Fang Yi, Minister in Charge, The State Scientific and Technological Commission, Beijing]

UNDERSTANDING ON THE EXCHANGE OF STUDENTS AND SCHOLARS BETWEEN THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

An understanding on educational exchanges between the United States and China was reached in Washington, D.C. in October 1978 during discussions between the Chinese education delegation headed by Dr. Chou Pei-yuan, Acting Chairman of the PRC Science and Technology Association, and the U.S. education delegation headed by Dr. Richard C. Atkinson, Director of the National Science Foundation, as follows:

1. Both sides agreed they would pursue a program of educational exchange in accordance with and in implementation of the spirit of the Shanghai Communique;

2. There will be a two-way scientific and scholarly exchange which will provide mutual benefit to both countries;

3. The exchanges will include students, graduate students and visiting scholars for programs of research and study in each country;

4. The two sides exchanged lists of fields in which its students and scholars are interested and lists of institutions where they wish to work. Each side will use its best efforts to fulfill the requests of the other for study and research opportunities. Each side will expeditiously grant visas for such exchanges in accordance with its laws and regulations;

5. The sending side will pay the costs associated with its participants;

6. Both sides may take full advantage of any scholarships which may be offered;

7. Each side will be responsible for the implementation of the program in its territory, including responsibility for providing advice to the other side and relevant information and materials about the universities and research institutions concerned;

8. The two sides agreed that the students and scholars sent by both sides should observe the laws and regulations and respect the customs of the receiving country;

9. The Chinese side indicated it wishes to send a total of 500 to 700 students and scholars in the academic year 1978–1979. The United States side indicated it wishes to send 10 students in its national program in January 1979 and 50 students in its national program by September 1979 as well as such other numbers as the Chinese side is able to receive. Both sides agree to use their best efforts to implement such programs;

10. To set each year the number of students and scholars to be exchanged and to discuss the progress of the program of exchanges, the two sides will meet when necessary. Consultations on important matters may also be held by the governments of the two countries. In addition, both sides will encourage direct contacts between the universities, research institutions, and scholars of their respective countries;

11. Both sides believe that the discussions mark a good beginning and have

BEST COPY AVAILABLE

opened up the prospect of broadened opportunities for exchanges between the two countries in the fields of science, technology and education as relations between them improve. Both sides also believe that such exchanges are conducive to the promotion of friendship and understanding between their two peoples.

UNDERSTANDING ON AGRICULTURAL EXCHANGE BETWEEN THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

During a visit to China of a delegation led by U.S Secretary of Agriculture Robert Bergland in November 1978, discussions were held with Chinese officials which resulted in understandings concerning US-PRC agricultural exchange It was agreed that it would be of mutual benefit to promote cooperation in agricultural technology, economic information, science and education, and trade in agricultural products, and that contacts between organizations and institutions of all types in these fields should be facilitated.

It was noted that study groups had already been exchanged in the fields of science and research, farm machinery, citrus fruits, wheat and vegetables. It was agreed that areas in which further exchanges should occur would include germ plasm (seed research and selection), biological control of pests, livestock and veterinary science, and agricultural education and research management methods. It was also agreed that, within the next two or three years, cooperation would be carried out in the fields of forestry, agricultural engineering, improvement of grasslands and management of pasturelands, cultivation of fruit trees, medicinal plants, and the application of remote sensing and computer technology to agriculture. Such cooperation would include mutual visits of, and joint research by, students, scientists and technicians.

The U.S. side agreed to facilitate contacts between officials of the People's Republic of China and U.S. manufacturers of agricultural equipment and supplies. Each side expressed its interest in the statistical methods of agricultural economics and experience in agricultural management of the other side. It was agreed also that, through the cooperator program of the U.S. Department of Agriculture, further discussions should be held regarding the products and technology best suited to conditions in China and that USDA teams would begin visiting China in early 1979. Reciprocal scientific teams from the PRC will also begin U.S. study visits in 1979.

It was agreed that the development of agricultural trade between the two countries was in the mutual interest and that its prospects were bright.

It was agreed that when study teams or technical trainees are exchanged on a one-for-one basis, the host country would pay in-country costs; and that when the exchange is not reciprocal, the sending country will pay all costs.

UNDERSTANDING ON COOPERATION IN SPACE TECHNOLOGY BETWEEN THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

During a visit to the United States in November and December 1978 by a delegation headed by Dr. Jen Hsin-min, Director of the Chinese Academy of Space Technology, an understanding in principle was reached with a delegation headed by Dr. Robert A. Frosch, Administrator of the National Aeronautics and Space Administration, on U.S.-Chinese cooperation in the peaceful utilization of space technology.

This understanding includes:

1. Cooperation in the development of the civil broadcasting and communica-

tions system of the PRC. The PRC intends, under suitable conditions, to purchase a U.S. satellite broadcasting and communications system, including the associated ground receiving and distribution equipment. The space portion of the system will be launched by NASA and placed in geostationary orbit by a U.S. contractor, with continued operation to be carried out by China; and

2. The intended purchase, under suitable conditions, by the PRC of a U.S. ground station capable of receiving earth resources information from the NASA Landsat remote sensing satellites, including the Landsat now under development.

It was also agreed that, through further discussions and correspondence, both sides would develop the details of the understanding described above and consider other fields of civil space cooperation which could be of mutual interest and benefit.

NOTE: Mr. Press and Vice Premier Fang signed the letters of understanding at the ceremony in the East Room at the White House prior to the signing of the science and technology agreement by the President and the Vice Premier.

Visit of Vice Premier Deng of China

Accord Implementing Cooperation in High Energy Physics Under the Agreement on Science and Technology. January 31, 1979

IMPLEMENTING ACCORD BETWEEN THE DEPARTMENT OF ENERGY OF THE UNITED STATES OF AMERICA AND THE STATE SCIENTIFIC AND TECHNOLOGICAL COMMISSION OF THE PEOPLE'S REPUBLIC OF CHINA ON COOPERATION IN THE FIELD OF HIGH ENERGY PHYSICS

The Department of Energy of the United States of America and the State Scientific and Technological Commission of the People's Republic of China (hereinafter referred to as the Parties), for the purpose of promoting cooperation and collaboration in the field of high energy physics subject to the Agreement Between the Government of the United States of America and the Government of the People's Republic of China on Cooperation in Science and Technology, signed in Washington, D.C. on January 31, 1979, have agreed as follows:

ARTICLE 1

The objective of this Accord is to further the energy programs of the Parties by establishing a framework for cooperation in the field of high energy physics, including theoretical and experimental research, accelerator design and construction techniques; and related technology areas as may be mutually agreed.

ARTICLE 2

Cooperation under this Accord may include the following forms:

1. Exchange and provision of information on scientific and technical developments, activities, and practices;
2. Research and development activities in the form of experiments, tests, and other technical collaborative activities;
3. Exchange of scientists, engineers, and other specialists; including visits by specialist teams or individuals to the facilities of the other Party, and exchange of personnel for training purposes;
4. Exchange and provision of samples, materials, instruments, and components for testing and evaluation;
5. Such other forms of cooperation as are mutually agreed.

ARTICLE 3

Specific undertakings, obligations and conditions with respect to the conduct of each activity under Article 2 including responsibility for payment of costs shall be agreed by authorized entities on a case-by-case basis.

ARTICLE 4

1. For the purpose of coordinating activities pursuant to this Accord, a Committee on High Energy Physics is hereby established, consisting of representatives of the Parties and such other persons from each Party's national research community as it may designate. Each Party shall designate one person to act as its co-chairperson on the Committee.

2. The Committee will encourage contacts between scientists, universities, and laboratories of the two nations.

3. The Committee each year shall develop and maintain a listing of joint activities to be carried out, and, as requested by the participating institutions and scientists, shall assist with arrangements for the listed activities. Items may be listed by consensus at meetings of the Committee, or, between meetings, by agreement of the co-chairpersons.

4. Each Party shall designate its members of the Committee within two months of the effective date of this Accord. The first meeting of the Committee should be held, if possible, within three months thereafter at an agreed site. Subsequently, the Committee shall meet in the United States and the People's Republic of China alternately at intervals of about 12 months or as agreed by the co-chairpersons.

5. The Committee shall be subject to the direction of the US-PRC Joint Commission on Scientific and Technological Cooperation established under the aforesaid Agreement of January 31, 1979, and shall periodically report the Status of its program to that Commission.

6. The Committee may assume other duties as mutually agreed by the Parties.

ARTICLE 5

The application or use of any information exchanged or transferred between the Parties under this Accord shall be the responsibility of the Party receiving it, and the transmitting Party does not warrant the suitability of such information for any particular use or application.

ARTICLE 6

The Parties recognize the need to agree upon provisions concerning protection of copyrights and treatment of inventions or discoveries made or conceived in the course of or under this Accord in order to facilitate specific activities hereunder. Accordingly, the Parties shall appoint experts in these two fields who shall separately recommend to the Parties detailed provisions which, if the Parties agree, shall be made an Annex to this Accord.

ARTICLE 7

Both Parties agree that in the event equipment is to be exchanged, or supplied by one Party to the other for use in cooperative activities, they shall enter into specific understandings on a case-by-case basis.

ARTICLE 8

1. Whenever an attachment of staff is contemplated under this Accord each Party shall ensure that staff with necessary skills and competence are selected for attachment to the other Party.

2. Each attachment of staff shall be the subject of an exchange of letters between the participating institutions, covering funding and other matters of interest not otherwise specified in this Accord.

3. Each Party shall provide all necessary assistance to the attached staff (and their families) of the other Party as re-

gards administrative formalities, travel arrangements and accommodations.

4. The staff of each Party shall conform to the general rules of work and safety regulations in force at the host establishment, or as agreed in separate attachment of staff agreements.

ARTICLE 9

1. All questions related to this Accord or activities carried out hereunder shall be settled by mutual agreement of the Parties.

2. Each Party will accept liability to the extent authorized by its national laws for damages arising from cooperative activities under this Accord.

ARTICLE 10

1. This Accord shall enter into force upon signature, and, unless terminated earlier in accordance with paragraph 2 of this Article, shall remain in force for a five-year period. It may be amended or extended by mutual agreement of the Parties.

2. This Accord may be terminated at any time at the discretion of either Party, upon 6 months advance notification in writing by the Party seeking to terminate the Accord.

3. The termination of this Accord shall not affect the validity or duration of specific activities being undertaken hereunder.

DONE at Washington this 31st day of January, 1979, in duplicate in the English and Chinese languages, both equally authentic.

For the Department of Energy of the United States of America:

JAMES R. SCHLESINGER

For the State Scientific and Technological Commission of the People's Republic of China:

FANG YI

NOTE: Secretary of Energy Schlesinger and Vice Premier Fang signed the texts of the accord at the ceremony in the East Room at the White House prior to the signing of the science and technology agreement by the President and the Vice Premier.

Visit of Vice Premier Deng of China

Cultural Agreement Between the United States and China. January 31, 1979

CULTURAL AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

The Government of the United States of America and the Government of the People's Republic of China,

Noting with satisfaction that better understanding between the peoples of both countries has been brought about through contacts and exchanges in culture, arts, humanities, journalism, sports, and other fields;

For the purpose of promoting wider contacts between the two peoples in the interest of consolidating and developing friendly relations between the two countries, and enhancing mutual understanding through encouraging and promoting cultural exchanges between the two countries in the spirit of the Joint Communique on the Establishment of Diplomatic Relations between the United States of America and the People's Republic of China and on the basis of the principles of equality, reciprocity and mutual benefit;

Have agreed as follows:

ARTICLE I

The two governments will encourage a deeper knowledge of their respective histories, cultures, literatures, arts, languages, sports and other areas including

BEST COPY AVAILABLE

attention to general knowledge in addition to more specialized study. Through cooperative programs as well as exchanges, the two governments will promote and assist their respective efforts to this end.

ARTICLE II

The two governments will encourage and facilitate further development of contacts and exchanges between the peoples of the two countries, including but not limited to interchanges between representatives of professional groups, cultural organizations, news and public information organizations, radio and television organizations and academic institutions and persons on the basis of shared interests.

ARTICLE III

The two governments will encourage, through mutually agreed programs and exchanges, enhanced understanding between the two peoples. Programs and activities to further this objective may include, but would not be limited to, the publication and distribution of books, magazines, and other printed materials; production and dissemination of films, recordings, and other audio-visual materials; as well as exhibitions relating to history, culture, arts and contemporary life; presentations of musical, dramatic and dance performances; and sports. In order to make such presentations and materials more readily understood in the other country, each government will encourage the development of activities such as translation programs.

ARTICLE IV

The two governments will encourage the broadest participation and support by non-governmental as well as governmental institutions for programs and activities covered by this Agreement.

ARTICLE V

On behalf of the Government of the United States of America, the Executive Agency for this Agreement shall be the International Communication Agency; on behalf of the Government of the People's Republic of China, the Executive Agency for this Agreement shall be the Ministry of Culture of the People's Republic of China.

The two Executive Agencies shall communicate with one another to review and assist in the implementation of this Agreement and may meet periodically as they may agree. They may reach understandings with one another regarding specific programs for agreed periods of time, which will guide the implementation of this Agreement.

The two Executive Agencies will encourage and facilitate, as appropriate, the development of contacts and cooperation between government agencies, institutions of higher learning, research institutes and other entities of the two countries and the conclusion of agreements between such bodies for mutually beneficial activities.

ARTICLE VI

This Agreement shall come into force on the date of signature for a period of five years. It shall be automatically renewed for another five years unless one of the governments gives written notice of termination to the other at least six months prior to the expiration of the period, and shall be renewable accordingly thereafter.

DONE at Washington this 31st day of January, 1979, in duplicate in the English and Chinese languages, both equally authentic.

For the Government of the United States of America:

JIMMY CARTER

For the Government of the People's Republic of China:

DENG XIAOPING

Visit of Vice Premier Deng of China

Agreement Between the United States and China on Consular Relations and Consulates General. January 31, 1979

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA ON THE MUTUAL ESTABLISHMENT OF CONSULAR RELATIONS AND THE OPENING OF CONSULATES GENERAL

The Government of the United States of America and the Government of the People's Republic of China agree to establish consular relations, open consular offices by each side in the other's territory, promote the well-being of each side's citizens in the other's territory, and foster family reunion, tourism, commercial, scientific-technological, cultural and other relations between the peoples of the United States and China. The Government of the United States of America agrees to the opening of Consulates General by the Government of the People's Republic of China in San Francisco and Houston. The Government of the People's Republic of China agrees to the opening of Consulates General by the Government of the United States of America in Guangzhou and Shanghai. For practical arrangements, see Annex. These Consulates General will be opened at mutually agreed times in the future.

DONE at Washington this 31st day of January, 1979, in duplicate in the English and Chinese languages, both equally authentic.

For the Government of the United States of America:

CYRUS R. VANCE

For the Government of the People's Republic of China:

HUANG HUA

ANNEX ON PRACTICAL ARRANGEMENTS

The Government of the United States of America and the Government of the People's Republic of China agree that consular relations will be conducted on a basis of reciprocity and mutual benefit and in accordance with the general principles and practice of international law. In the event of disagreements, both governments undertake to resolve them through consultations in a spirit of mutual understanding and cooperation, drawing on the principles of customary international law embodied in the Vienna Convention on Consular Relations of 1963.

Pending entry into force of a Consular Agreement to be negotiated, the two sides agree to the following interim practical arrangements:

1. The two governments agree to facilitate the reunion of families and will process all applications as quickly as possible under mutually agreed arrangements and in accordance with each side's laws and regulations.

2. The two governments agree to facilitate travel between their respective countries of persons who may claim simultaneously the nationality of the United States of America and the nationality of

BEST COPY AVAILABLE

the People's Republic of China. Exit formalities and documentation shall be dealt with in accordance with the laws of the country in which the person concerned resides. Entry formalities and documentation shall be dealt with in accordance with the laws of the country to which the person concerned wishes to travel.

3. United States citizens entering the People's Republic of China on the basis of United States travel documents containing Chinese entry visas will, during the period for which their status has been accorded, and in accordance with the visa's validity, be considered United States nationals by the appropriate Chinese authorities for the purpose of ensuring consular access and protection. Such persons shall have the right of departure from the People's Republic of China without further documentation, regardless of whether they may also be regarded as citizens of the People's Republic of China, nor shall they lose the right of consular protection or the right of departure without further documentation if the period of validity for which the status has been accorded has expired during the course of judicial or administrative proceedings which prevent their earlier departure.

4. Citizens of the People's Republic of China entering the United States using travel documents of the People's Republic of China containing United States entry visas will, during the period for which their status has been accorded, and in accordance with the visa's validity, be considered nationals of the People's Republic of China by the appropriate United States authorities for the purpose of ensuring consular access and protection. Such persons shall have the right of departure from the United States without further documentation, regardless of whether they may also be regarded as citizens of the United States, nor shall they lose the right of consular protection or the right of departure without further documentation if the period of validity for which the status has been accorded has expired during the course of judicial or administrative proceedings which prevent their earlier departure.

5. If a citizen of the sending country is arrested or detained in any manner, the authorities of the receiving country shall, without delay, notify the consular post or embassy accordingly of the arrest or detention of the person and permit access by a consular officer of the sending state to the citizen who is under arrest or detained in custody.

6. Persons residing in the People's Republic of China who are entitled to receive financial benefits from the Government of the United States of America shall receive their benefits under mutually agreed arrangements and in accordance with each side's laws and regulations.

7. Persons residing in the United States of America who are entitled to receive financial benefits from the Government of the People's Republic of China shall receive their benefits under mutually agreed arrangements and in accordance with each side's laws and regulations.

8. In addition to consular offices whose opening has already been agreed upon, the two sides agree to discuss the opening of consular offices in other cities as the need arises.

NOTE: Secretary of State Vance and Chinese Foreign Minister Huang signed the texts of the agreement prior to the signing of the cultural and science and technology agreements by the President and the Vice Premier.

Visit of Vice Premier Deng of China

Remarks Following the Signing of Agreements Between the United States and the People's Republic of China. January 31, 1979

THE PRESIDENT. *Mr. Vice Premier, American and Chinese friends:*

What we have accomplished in the last 3 days is truly exceptional. But our aim is to make this kind of exchange between our countries no longer the exception, but the norm; no longer a matter of headlines and historians, but a routine part of the everyday lives of both the Chinese and the American people. With the signing of these agreements, we have begun to do just exactly that.

After too many eras in which one or the other of our nations has sought to dominate the relations between us, China and the United States of America are now meeting on a basis of equality, with full diplomatic relations. We've charted a new and irreversible course toward a firmer, more constructive, and a more hopeful relationship.

I have come to know Vice Premier Deng well in the hours we have spent together. He speaks his mind, and he values results. In our conversations about world affairs, we have found that we share many common perspectives. While we pursue independent foreign policies, our separate actions in many places can contribute to similar goals. These goals are a world of security and peace, a world of both diversity and stability, a world of independent nations free of outside domination.

Both our countries have a special interest in promoting the peace and prosperity of the people of East Asia. We have agreed to consult regularly on matters of common global interest. The security concerns of the United States do not coincide completely, of course, with those of China, nor does China share our responsibilities. But a strong and secure China which contributes constructively to world affairs is in our interest, and a globally engaged, confident, and strong America is, obviously, in China's interest.

The agreements that we have just signed for cultural, scientific and technological exchanges, and for consular arrangements will bring the tangible benefits of normalization to increasing numbers of both our peoples. We look forward to an early settlement of the issue of claims and assets, to the reunification of families, to expanded tourism, and to the development of a healthy and a vigorous trading relationship between our countries.

In the near future, because of these agreements, American consulates will open in Shanghai and Guangzhou, and Chinese consulates will open in Houston and San Francisco. Hundreds of American students will study and will learn in China, and hundreds of Chinese students will further their education in the United States.

Our National Aeronautics and Space Administration, NASA, will launch a civilian communications satellite, paid for by China, that will bring color television and expanded communications to all of the people of China for the first time.

Mr. Vice Premier, your stay in Washington is nearly over, but your trip to the United States has just begun. You leave tomorrow for three of the most interesting cities in our country: Atlanta, Houston, and Seattle. You will see something of the way Americans work and live.

And as you travel from one end of our country to the other, I think you will find that the American people are eager to get to know you and to join in building the new relationship between our two countries.

You leave Washington with many new friends, and you will return to China with a great many more. And when you return to your homeland, I hope that you will convey my best wishes to Premier Hua Guofeng and to the people of China.

THE VICE PREMIER. *Mr. President and Mrs. Carter, ladies and gentlemen:*

First of all, allow me to express my thanks to you, Mr. President, for the many friendly words which you have just said with regard to developing the relations of friendship and cooperation between our two countries and two peoples. We have just done a significant job. But this is not the end, but a beginning.

We anticipated that following the normalization of relations, there would be a rapid development of friendly cooperation between our two countries in many broad fields. The agreements we have just signed are the first fruits of our endeavors. There are many more areas of bilateral cooperation and many more channels waiting for us to develop. We have to continue our efforts.

It is my belief that extensive contacts and cooperation among nations and increased interchanges and understanding between peoples will make the world we live in more safe, more stable, and more peaceful.

Therefore, the work we have just done is not only in the interests of the Chinese and American peoples but of the peoples of the world as well. It is with these remarks that I mark the signing of the agreement between China and the United States on scientific and technological cooperation, the cultural agreements, and other documents.

Finally, I would like once again to express sincere thanks to Mr. President and Mrs. Carter for your very warm and kind reception which you have given us in Washington. And I look forward to meeting with Mr. President and Mrs. Carter in the near future in China.

NOTE: The President spoke at 4:40 p.m. at the signing ceremony in the East Room at the White House. The Vice Premier spoke in Chinese, and his remarks were translated by an interpreter.

Visit of Vice Premier Deng of China

Joint Press Communique. February 1, 1979

At the invitation of the President of the United States of America and Mrs. Carter, the Vice-Premier of the State Council of the People's Republic of China Deng Xiaoping and Madame Zhuo Lin are on an official visit to the United States which lasts from January 29 to February 4, 1979. Vice-Premier Deng and President Carter held talks on questions of mutual interest in Washington. Accompanying Vice-Premier Deng in the talks were Vice-Premier Fang Yi, Foreign Minister Huang Hua and others. Accompanying President Carter in the talks were Vice President Mondale, Secretary of State Cyrus Vance, Assistant to the President for National Security Affairs Zbigniew Brzezinski and others.

The talks were cordial, constructive and fruitful. The two sides reviewed the international situation and agreed that in many areas they have common interests and share similar points of view. They also discussed those areas in which they have differing perspectives. They reaffirm that they are opposed to efforts by any country or group of countries to establish hegemony or domination over others, and that they are determined to make a contribution to the maintenance of international peace, security and national independence. The two sides consider that the difference in their social systems should not constitute an obstacle to their strengthening friendly relations and cooperation. They are resolved to work toward this end, and they firmly believe that such cooperation is in the interest of their two peoples and also that of peace and stability in the world and the Asia-Pacific region in particular.

Vice-Premier Deng Xiaoping on behalf of the Government of the People's Republic of China and President Carter on behalf of the United States Government signed an Agreement on Cooperation in Science and Technology and a Cultural Agreement. Vice-Premier Fang Yi and the President's Science Adviser Frank Press signed and exchanged letters of understanding on cooperation between the two countries in education, agriculture and space. Vice-Premier Fang Yi and Secretary of Energy James Schlesinger signed an Accord between the two countries on Cooperation in the Field of High Energy Physics. Foreign Minister Huang Hua and Secretary of State Cyrus Vance signed an Agreement on the Mutual Establishment of Consular Relations and the Opening of Consulates General in each other's country.

Each side agreed to facilitate the accreditation of resident journalists by the other side.

The two sides agreed to conclude trade, aviation, and shipping agreements. These will be discussed during the visits to the People's Republic of China by Secretary of the Treasury Michael Blumenthal and Secretary of Commerce Juanita Kreps.

On behalf of the Chinese Government and Premier Hua Guofeng, Vice-Premier Deng Xiaoping extended an invitation to President Carter to visit China at a time convenient to him. President Carter accepted this invitation. President Carter extended an invitation to Premier Hua Guofeng to visit the United States. Vice-Premier Deng Xiaoping accepted this invitation on behalf of Premier Hua Guofeng. The specific time for these visits by the top leaders of the two countries will be discussed and decided upon at a later time.

Reprinted from China: Human Rights and MFN; Joint Hearing before the Subcommittees on Economic Policy, Trade and Environment; International Security, International Organizations and Human Rights; and Asia and the Pacific, Committee on Foreign Affairs, House of Representatives, 103rd Congress, 2nd session, 1994. p. 64-81.

103d Congress
2d Session } JOINT COMMITTEE PRINT

COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES FOR 1993

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

AND THE

COMMITTEE ON FOREIGN RELATIONS
U.S. SENATE

BY THE

DEPARTMENT OF STATE

IN ACCORDANCE WITH SECTIONS 116(d) AND 502B(b) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

FEBRUARY 1994

Printed for the use of the Committees on Foreign Affairs and Foreign Relations of the House of Representatives and U.S. Senate respectively

U.S. GOVERNMENT PRINTING OFFICE
75-469 WASHINGTON : 1994

CHINA

The People's Republic of China (PRC) remains a one-party state ruled by the Chinese Communist Party through a 21-member Politburo and a small circle of officially retired but still powerful senior leaders. Almost all top civilian, police, and military positions at the national and regional levels are held by party members. Despite official adherence to Marxism-Leninism, in recent years economic decisionmaking has become less ideological, more decentralized, and increasingly market oriented. Fundamental human rights provided for in the Constitution are frequently ignored in practice, and challenges to the Communist Party's political authority are often dealt with harshly and arbitrarily.

Security forces, comprised of a nationwide network which includes the People's Liberation Army, the Ministry of State Security, the Ministry of Public Security, the People's Armed Police, and the state judicial, procuratorial, and penal systems, are poorly monitored due to the absence of adequate legal safeguards or adequate enforcement of existing safeguards for those detained, accused, or imprisoned. They are responsible for widespread and well-documented human rights abuses, including torture, forced confessions, and arbitrary detentions.

A decade of rapid economic growth, spurred by market incentives and foreign investment, has reduced party and government control over the economy and permitted ever larger numbers of Chinese to have more control over their lives and livelihood. Despite significant income disparities between coastal regions and the interior, there is now a growing "middle class" in the cities and rural areas as well as a sharp decline in the number of Chinese at the subsistence level. These economic changes have led to a de facto end to the role of ideology in the economy and an increase in cultural diversity. An example of this is the media, which remains tightly controlled with regard to political questions, although it now is free to report on a wider variety of other issues.

The Government took some positive steps on human rights issues during 1993. It released some prominent political prisoners early or on medical parole; many had served long terms in prison. The Government still has not provided a full or public accounting of the thousands of persons detained during the suppression of the 1989 democracy movement, when millions of students, workers, and intellectuals defied the Government and participated in public demonstrations. Most of these detainees appear to have been released, however, some after serving periods of detention without charges having been brought and some after having completed their prison sentences. The Government says it has released the remaining imprisoned or detained Vatican loyalists among the Catholic clergy. Although it continues to restrict the movements and activities of some elderly priests and bishops, the Government announced in November that two priests, whose movements had been restricted, were free to return to their homes. The authorities also allowed a number of prominent political dissidents to leave China in 1993. In November the Government announced it would give positive consideration to a request from the International Committee of the Red Cross (ICRC) to visit China.

Nevertheless, the Government's overall human rights record in 1993 fell far short of internationally accepted norms as it continued to repress domestic critics and failed to control abuses by its own security forces. The Government detained, sentenced to prison, or sent to labor camps, and in a few cases expelled from the country, persons who sought to exercise their rights of freedom of assembly and speech. The number of persons in Chinese penal institutions considered political prisoners by international standards is impossible to estimate accurately. In 1993 hundreds, perhaps thousands, of political prisoners remained under detention or in prison. Physical abuse, including torture by police and prison officials persisted, especially in politically restive regions with minority populations like Tibet. Criminal defendants continue to be denied legal safeguards such as due process or adequate defense. In many localities, government authorities continued to harass and occasionally detain Christians who practiced their religion outside the officially sponsored religious organizations.

RESPECT FOR HUMAN RIGHTS

Section 1. Respect for the Integrity of the Person, Including Freedom from:

a. *Political and Other Extrajudicial Killing.*—There were accounts of extrajudicial killings by government officials in 1993. A few cases resulted in severe punishment for the officials involved and were widely publicized as admonitory examples. Local officials beat to death an Anhui farmer in February after he protested the level of taxes and fees. Those found directly responsible for the beating, including a local public security official, received long prison terms and, in one case, a death sentence. Other officials were dismissed or disciplined. Also, in another well-publicized case, the powerful local Communist party secretary of a village near Tianjin was sentenced in August to 20 years in prison for obstruction of justice and other offenses related to a December 1992 beating death. Those who actually took part in the beating also received long prison terms.

The official responses to other cases served to cover up abuses, however. Credible reports indicated that a Shaanxi man beaten by public security officials in March, during a raid on an unauthorized Protestant gathering, died as a result of his injuries and the lack of timely medical care while in police custody. An official autopsy ascribed the death to an unrelated illness.

Because the Government often restricts access to such information, it is impossible to determine the total number of such killings. However, according to a credible report issued in 1993 by a human rights group, at least 12 persons died in 1992 as a result of torture while in police custody.

b. *Disappearance.*—There were no reported cases in 1993 in which persons who disappeared were suspected to have been killed by officials, however, the Government has still not provided a comprehensive, credible public accounting of all those missing or detained in connection with the suppression of the 1989 demonstrations.

c. *Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment.*—Cases of torture and degrading treatment of detained and imprisoned persons persisted. Both official Chinese sources and international human rights groups reported many instances of torture. Persons detained pending trial were particularly at risk as a result of weaknesses in the legal system, including the emphasis on obtaining confessions as a basis for convictions and the lack of access to prisoners, even by family members, until after formal charges are brought, a step that can be delayed for months. Former detainees have credibly reported the use of cattle prods and electrodes, prolonged periods of solitary confinement and incommunicado detention, beatings, shackles, and other forms of abuse against detained women and men.

While generally refusing to allow impartial observers to visit prisoners, officials stated that internal monitoring and laws to prevent and punish abuses continue to be strengthened. Procurator General Liu Fuzhi said in March that 2,800 procuratorate offices had been set up in jails and detention centers to safeguard the welfare of detainees. In response to a call by the Chairman of the National People's Congress (NPC), a national-level procuratorial conference held in Shanghai in early April focused on measures to improve the Procuratorate's supervision of law enforcement personnel and government officials who violate the civil rights of citizens. In August the Guangdong provincial public security bureau issued a regulation forbidding police torture during interrogations. In April China told the U.N. Committee Against Torture that 339 cases of torture to extract confessions were investigated during 1992, 209 cases were reported to the Procuratorate with a view to prosecution, and 180 prosecutions were brought. No information on convictions or punishments was provided. While Chinese officials said in December that 23 prison officials had been punished in serious cases of mistreatment of prisoners, the number of actual incidents of torture and ill-treatment by government officials is almost certainly far greater than this number.

Conditions of imprisonment for political prisoners vary widely. Some prisoners, including the student leader Wang Dan, who was released in February, have stated they were treated reasonably well. Credible reports indicate others have been abused. Political prisoners are often intermingled with common criminals. Credible reports persisted in 1993 that Liu Gang, a political prisoner held at a Liaoning labor camp, suffers ill health as a result of beatings and other mistreatment, and that prison officials instigated some beatings by cellmates. Officials strongly denied these allegations and arranged for an interview with Liu and his jailers, which was published in August by a Chinese English-language journal. They declined repeated requests by foreign groups to allow access to the jailed dissident by independent observers.

There was limited evidence that, at least in a few cases, detained dissidents have been incarcerated in psychiatric institutions and treated with drugs. The lack of independent outside access to such persons made it impossible to verify the reports. Shanghai dissident Wang Miaogen was detained by public security officials in May and committed to a mental institution after he attempted to protest the holding of the East Asia games. Wang had earlier chopped off four of his fingers in a protest over alleged persecution. Wang Wanxing, detained in 1992 while attempting to stage a one-man protest on Tiananmen Square, continued to be held in a Beijing-area mental hospital.

Conditions in Chinese penal institutions are generally harsh and frequently degrading, and nutritional and health conditions are sometimes grim. Medical care for prisoners has been a problem area, despite official assurances that prisoners have the right to maintain good health and receive prompt medical treatment if they become ill. In 1993 political prisoners who reportedly had difficulties in obtaining timely and adequate medical care included Wang Juntao, Chen Ziming, and Ren Wanding. Medical paroles may be granted to ailing prisoners, and 1989 detainee Li Guiren was released in January to obtain medical treatment. Working conditions for prisoners in many facilities are similar to those in ordinary factories, but some prisoners working in penal coal mines and at other sites must endure dangerous conditions (see Section 6.c.).

Political prisoner Qi Dafeng continued to serve a 2-year sentence in a coal mine in Anhui, where he had been sent under the nonjudicial "reeducation through labor" program in late 1992.

d. *Arbitrary Arrest, Detention, or Exile.*—China's Criminal Procedure Law proscribes arbitrary arrest or detention, limits the time a person may be held in custody without being charged, and requires officials to notify the detainee's family and work unit of the detention within 24 hours. These provisions are subject to several important exceptions, including the sweeping provision that notification may be withheld if it would "hinder the investigation" of a case. Senior judicial officials acknowledged in 1993 that limits on detention are frequently ignored in practice or circumvented by various informal mechanisms. In numerous cases, the precise legal status or location of detainees is unclear. Public security authorities often detain people for long periods of time under mechanisms not covered by the Criminal Procedure Law. These include unpublished regulations on "taking in for shelter and investigation" and "supervised residence" as well as other methods not requiring procuratorial approval. According to the Chinese media, close to 1 million detentions under "shelter for investigation" have been carried out annually in recent years. No statistics were available to indicate the usual length of these detentions, but at least some lasted several months. Links between local officials and business leaders have resulted in scattered detentions as a means of exerting pressure in economic disputes. The legality of detentions may be judicially challenged under the Administrative Procedures Law, but such challenges are rare and there is little evidence that this is an adequate or timely remedy for improper actions. There is no judicially supervised system of bail, but at the discretion of public security officials some detainees are released pending further investigation.

Political dissidents are often detained or charged for having committed "crimes of counterrevolution" under Articles 90 through 104 of the Criminal Law. Counterrevolutionary offenses range from treason and espionage to spreading counter-revolutionary propaganda. These articles have also been used to punish persons who organized demonstrations, disrupted traffic, disclosed official information to foreigners, or formed associations outside state control. Detention and trial of dissidents on other charges is also possible. People participating in unauthorized religious organizations may be charged with criminal offenses such as receiving funds from abroad without authorization or changing such funds on the black market. Legal provisions requiring family notification and limiting length of detention are often ignored in political cases. Liao Jia'an, a university student in Beijing detained in 1992 for peaceful expression of his political views, was held for a year before being formally arrested in mid-1993 for counterrevolutionary crimes.

A well-documented estimate of the total number of those subjected to new or continued arbitrary arrest or detention for political reasons is not possible due to the Government's tight control of information. Individuals reported detained are sometimes released without charge after several days or weeks of interrogation. There were several reported lengthier detentions of dissidents, including Sun Lin, Wang Miaogen, and Zhang Xianliang, in Shanghai during 1993. Sun was released in August after 5 months in detention. Democracy activists Qin Yongmin, Yang Zhou, and Zheng Xuguang were detained in November in connection with the formation of a group called the "Peace Charter." Yang Zhou was released from detention on December 31, but the authorities had not provided information on the status or location of the other peace charter detainees. Several dozen Tibetans were also reported to have been detained after participation in proindependence demonstrations or activities (see Section 5). Gendun Rinchen, a Tibetan tour guide who had been detained in May 1993, was released on January 14, 1994

e. *Denial of Fair Public Trial.*—Officials insist that China's judiciary is independent but acknowledge that it is subject to the Communist Party's policy guidance. In actuality, party and government leaders almost certainly predetermine verdicts and sentences in some sensitive cases. According to the Constitution, the court system is equal in authority to the State Council and the Central Military Commission, the two most important government institutions. All three organs are nominally under the supervision of the National People's Congress. The Supreme People's Court stands at the apex of the court system, followed in descending order by the higher, intermediate, and basic people's courts.

Due process rights are provided for in the Constitution but are often ignored in practice. Both before and after trial, prisoners are subject to severe psychological pressure to confess their "errors." Defendants who fail to "show the right attitude" by confessing their crimes are typically sentenced more harshly. Despite official media and other reports that indicate coerced confessions have led to erroneous convictions, a coerced confession is not automatically excluded as evidence. According to judicial officials, however, confessions without corroborating evidence are an insufficient basis for conviction.

Accused persons are given virtually no opportunity to prepare a defense in the pretrial process, during which the question of guilt or innocence is essentially decided administratively. Defense lawyers may be retained only 7 days before the trial. In some cases even this brief period has been shortened under regulations issued in 1983 to accelerate the adjudication of certain serious criminal cases. Persons appearing before a court are not presumed innocent; despite official denials, trials are essentially sentencing hearings. Conviction rates average over 99 percent. There is an appeal process, but initial decisions are rarely overturned, and appeals generally do not provide meaningful protection against arbitrary or erroneous verdicts. Like the initial court verdict, the judgment of the Appeals Court is subject to Communist Party "guidance."

Under the Criminal Procedure Law, persons "exempted from prosecution" by procurators are deemed to have a criminal record, despite the lack of a judicial determination of guilt. Such provisions can be applied in "counterrevolutionary crimes" as well as for ordinary criminal offenses. In August Shanghai activists Sun Lin, Yao Tiansheng, and Han Lifa were "exempted from prosecution" for counterrevolutionary offenses and released.

Some officials have acknowledged that trials in China are conducted too rapidly. These officials state that China's 70,000 lawyers, most of whom are engaged in commercial law, are insufficient to meet the country's expanding legal needs and point to the Government's intention to increase this number to at least 150,000. Knowledgeable observers report that defense attorneys appear in only a small number of criminal trials. Under Chinese law, there is no requirement that the court appoint a defense attorney for the defendant unless the defendant is deaf, dumb, or a minor. When attorneys do appear, they have little time to prepare a defense and rarely contest guilt; their function is generally confined to requesting clemency. Defense lawyers, like other Chinese, generally depend on an official work unit for employment, housing, and many other aspects of their lives. They are therefore often reluctant to be viewed as overzealous in defending persons accused of political offenses.

The need for adequate, independent legal aid is increasingly understood in legal circles and within the Government. In many cities, law firms are being organized outside the framework of established government legal offices. These firms are self-regulating and do not have their personnel or budgets determined directly by the State. The Minister of Justice announced in October that China would gradually increase the number of autonomous law firms from the current total of 410.

The Criminal Procedure Law requires that all trials be held in public, except those involving state secrets, juveniles, or "personal secrets." Details of cases involving "counterrevolutionary" charges, however, have frequently been kept secret, even from defendants' relatives, under this provision. The 1988 Law on State Secrets affords a ready basis for denying a public trial in cases involving "counterrevolution."

Lack of due process is particularly egregious when defendants receive the death sentence. Chinese officials refuse to provide comprehensive statistics on death sentences or executions, but hundreds of executions are officially reported annually. The actual numbers may be much higher. All death sentences are nominally reviewed by a higher court. Reviews are usually completed within a few days after sentencing and consistently result in a perfunctory confirmation of sentence. However, no executions for political offenses are known to have occurred in 1993.

In addition to the formal judicial system, government authorities can assign persons accused of "minor" public order and "counterrevolutionary" offenses to "reeducation through labor" camps in an extrajudicial process. In 1990 Chinese officials stated that 869,934 Chinese citizens had been assigned to these camps since 1980, with about 80,000 assigned each year. Chinese officials reported 120,000 prisoners were undergoing "reeducation through labor" at the end of 1993. Other estimates of the number of inmates are considerably higher. Terms of detention run from a normal minimum of 1 year to a maximum of 3 years. The "labor reeducation" committee which determines the term of detention may extend an inmate's sentence for an additional year. Under a State Council regulation issued in early 1991, those sentenced to "reeducation through labor" may ask the committee to reconsider their decision. Since 1990, "reeducation through labor" sentences may also be judicially challenged under the Administrative Procedures Law. While some persons have gained reduction or withdrawal of their sentence after reconsideration or appeal, in practice these procedures are rarely used, and short appeal times, lack of access to lawyers, and other problems weaken their potential assistance in preventing or reversing arbitrary decisions.

The system of "reeducation through labor" sometimes is used by security authorities to deal with political and other offenders without reference to even the nominal procedures and protections the formal criminal process offers. In Shanghai, Fu Shenqi and Zhang Xianliang were given 3-year "reeducation through labor" sentences in July for "provoking incidents" and "inciting trouble" which disturbed public order.

Government officials deny that China has any political prisoners, asserting that persons are detained not for the political views they hold, but because they have taken some action which violates the Criminal Law. The number of persons in Chinese penal institutions considered political prisoners by international standards is impossible to estimate accurately. Hundreds, perhaps thousands, of political prisoners remained imprisoned or detained. Estimates by some foreign researchers of the number of political prisoners are much higher. Many if not most people held for political offenses are charged as counterrevolutionaries. Chinese officials said in December there were 3,172 persons serving sentences for counter-revolutionary crimes, down from a figure of 3,317 given to an American human rights monitor in October. As part of the October figure, officials also indicated that 560 persons convicted of counterrevolutionary crimes had been paroled. Those convicted of counterrevolutionary crimes make up 0.2 percent of the total prisoner population of 1.22 million, but they are about 5 percent of total parolees. As recently as November 1992, an Australian delegation was told there were 4,000 in prison for counterrevolutionary crimes. All these estimates almost certainly include a substantial number of persons convicted of espionage or other internationally recognized criminal offenses. At the same time, the figures exclude many political prisoners detained but not charged, persons held in labor reeducation camps and an undetermined number of persons sentenced for criminal offenses due solely to their nonviolent political or religious activities.

Many prominent activists, including Chen Ziming, Wang Juntao, and Liu Gang (all three held since 1989), remained imprisoned in 1993. Some persons detained for political reasons were released on parole before the end of their sentences. Those released early included longtime political prisoners Wei Jingsheng, Wang Xizhe, and Xu Wenli, and Tiananmen-related detainees Wang Dan, Gao Shan, Zhai Weimin, Wu Xuecan, and Guo Haifeng. Shanghai activist Fu Shenqi was released in March but reimprisoned on other charges in June. Even after release, such persons have a criminal record, and their status in society, ability to be employed, freedom to

BEST COPY AVAILABLE

travel, and numerous other aspects of their lives are often severely restricted. Economic reform and social change have somewhat diminished these problems, but some people continue to experience serious hardships. For example, the families of political prisoners sometimes encounter difficulty in obtaining or keeping employment and housing. Zhang Fengying, wife of imprisoned activist Ren Wanding, remained in poor housing conditions in 1993. Zhang and her teenage daughter were evicted from their apartment in 1992. Ren's work unit owns the apartment. While the work unit asserted it wanted to reassign the housing to another worker, the apartment reportedly has remained vacant.

f. *Arbitrary Interference with Privacy, Family, Home, or Correspondence.*—The authorities extensively monitor and regulate personal and family life, particularly in China's cities. Most persons in urban areas still depend on their government-linked work unit for housing, permission to marry or have a child, approval to apply for a passport, and other aspects of ordinary life. The work unit, along with the neighborhood watch committee, is charged with monitoring activities and attitudes. However, changes in the economic structure, including the growing diversity of employment opportunities and the increasing market orientation of many work units, are undermining the effectiveness of this system. Search warrants are required by law before security forces can search premises, but this provision is often ignored. In addition, both the Public Security Bureau and procuracy apparently can issue search warrants on their own authority.

The 1982 Constitution states that "freedom and privacy of correspondence of citizens . . . are protected by law," but, according to a Western expert on Chinese law, legislation for this purpose does not exist. In practice, some telephone conversations are recorded, and mail is frequently opened and censored. The Government often monitors and sometimes restricts contact between foreigners and Chinese citizens, particularly dissidents.

The Government has continued its effort to control citizens' access to outside sources of information, selectively jamming Chinese language broadcasts of the Voice of America (VOA) and the British Broadcasting Corporation. Despite the effort made to jam VOA, the effectiveness of the jamming varies considerably by region, with audible signals reaching most parts of China. A small but rapidly growing segment of the population has access to satellite television broadcasts. Authorities issued new regulations on the installation and operation of satellite dishes in October, requiring permits for operation and banning private ownership and operation except under limited circumstances. However, China has not been very successful in implementing past regulations restricting the use of satellite dishes. Satellite television dishes are widely available for sale, and a licensing scheme which nominally controls purchase of the equipment is loosely enforced.

China's population has roughly doubled in the past 40 years to nearly 1.2 billion people, over a fifth of all humanity. In the 1970's and 1980's China adopted a comprehensive and highly intrusive family planning policy. This policy most heavily affects Han Chinese in urban areas. For urban couples, obtaining permission, usually issued by their work units, to have a second child is very difficult. Numerous exceptions are allowed for the 70 percent of Han who live in rural areas. Ethnic minorities are subject to less stringent population controls. Enforcement of the family planning policy is inconsistent, varying widely from place to place and year to year.

The population control policy relies on education, propaganda, and economic incentives, as well as more coercive measures, including psychological pressure and economic penalties. Rewards for couples who adhere to the policy include monthly stipends and preferential medical and educational benefits.

Disciplinary measures against those who violate the policy include stiff fines, withholding of social services, demotion, and other administrative punishments, including, in some instances, loss of employment. Unpaid fines have sometimes resulted in confiscation or destruction of personal property. Because penalties for excess births may be levied against local officials and the mothers' work units, many persons are affected, providing multiple sources of pressure.

Physical compulsion to submit to abortion or sterilization is not authorized, but Chinese officials acknowledge privately that there are still instances of forced abortions and sterilizations in remote, rural areas. Officials maintain that, when discovered, abuses by local officials result in discipline or retraining. They admit, however, that stronger punishment is rare and have not documented any cases where punishment has occurred. A sharp reported drop in fertility rates in 1991–92 sparked concern about a possible upturn in incidents of coercion. One cause for worry about such increased pressures was a policy change in early 1991 making local political officials more directly responsible for success in meeting family quotas. There was strong evidence, however, that the magnitude of the reported fertility drop was sharply exaggerated, in part because the policy change intensified strong existing incentives for officials and families to underreport births.

At least five provincial governments have implemented regulations with eugenics provisions, beginning with Gansu in 1988. These regulations seek to prevent people with severe mental handicaps from having children. National family planning officials say they oppose such legislation, but the Government has taken no action to overturn these local laws.

Section 2. Respect for Civil Liberties, Including:

a. *Freedom of Speech and Press.*—Freedom of speech and self-expression remain severely restricted, although there has been an easing of the limits imposed during the post-Tiananmen crackdown. Citizens are not permitted to publish or broadcast criticism of senior leaders or opinions that contradict basic Communist Party doctrine which provides for a Socialist state under the party's control, or to make speeches which contain such criticism or opinions. The Government interprets the Communist Party's "leading role" as circumscribing the various individual rights guaranteed in the Constitution. People who violate these quidelines are warned and often punished. Gao Yu, a former writer of a now banned periodical, was charged in October with "leaking state secrets abroad" in connection with articles published in Hong Kong. Xi Yang, a Hong Kong reporter, was detained in September for "stealing" financial secrets in connection with articles published in Hong Kong.

Domestic television and radio broadcasting and the press remain under party and government control and are used to propagate the currently acceptable ideological line. A more lively tabloid sector continued to expand in 1993, and the circulation of major propaganda-oriented dailies continued to slip.

Radio talk shows also flourished and, although they generally avoided politically sensitive subjects, they provided some opportunity for Chinese to discuss, and sometimes question officials about, public issues, including corruption. Under official pressure, the film "Farewell My Concubine," which caused controversy because of its implicit criticism of the cultural revolution and portrayal of a homosexual relationship, was withdrawn from distribution in July after showings in Beijing and Shanghai. After further editing, it was rereleased in September.

The Government has continued to impose tight controls on colleges, universities, and research institutes. However, Beijing University and Shanghai's Fudan University stopped sending students to a full year of training and ideological indoctrination at military camps, a requirement imposed in 1989. The heavy ideological control of academic institutions and media censorship continued to force Chinese journalists and scholars to exercise caution in 1993. Many scholars, including some of China's most prominent, have been deterred from exercising free speech and have declined opportunities to publish or present papers on subjects that they fear could be construed as sensitive. On some less sensitive but still controversial subjects, such as economic policy, legal reform and even civil rights issues, the Government has tolerated more vigorous public discussion. Some authors who were considered politically unacceptable after 1989, such as legal scholar Yu Haocheng, were able to overcome bans and regain at least limited ability to get articles published in 1993.

b. *Freedom of Peaceful Assembly and Association.*—While the Constitution provides for freedom of peaceful assembly and association, these rights are severely restricted in practice. The Constitution provides, for example, that such activities may not infringe "upon the interests of the State," and in practice protests against the political system or its leaders are proscribed. Demonstrations involving expression of dissident political views are denied permits and suppressed if held. Qin Yongmin was briefly detained several times when he attempted to leave his native Wuhan for Beijing to protest against the capital's bid to host the Olympic Games in the year 2000 (see Section 1.d). However, some small-scale demonstrations on nonpolitical grievances are tolerated in practice. In February there were two small demonstrations at the gate of the Zhongnanhai leadership compound in Beijing by women laid off from a state steel firm. In August authorities also tolerated generally peaceful demonstrations in several provinces by Muslims, sometimes numbering in the thousands, who were protesting a book they found offensive. The book was subsequently banned. Demonstrators protesting the same book in Qinghai in October, however, were met with force when Muslim demonstrators threatened to take their protest to Beijing. According to credible reports, there were at least nine deaths.

Public security forces acted with more restraint than in the past to demonstrations in Lhasa in May, which began with a small protest on economic grievances but attracted hundreds of additional participants, including many who shouted proindependence slogans and some who threw rocks. Several dozen persons were believed to have been at least briefly detained in the wake of the protests, but reports of a handful of deaths or serious injuries from the impact of tear gas projectiles appeared to be erroneous. According to human rights organizations, smaller scale protests were reported to have occurred frequently in the Tibetan capital and resulted in swift detention for the participants. Gendun Rinchen and Lobsang Yonten were detained in May, apparently because of alleged proindependence activities, and they were held through the remainder of the year before being released in January 1994. Tibetan political prisoners like Yulo Dawa Tsering, Ngawang Pulchung, and Jempel Tsering remained imprisoned in 1993. While repression continued, there was at the same time a continuation of limited dialog on Tibet with representatives of the Dalai Lama.

The Communist Party organizes and controls most professional and other mass associations. All organizations are required by 1990 regulations to be officially registered and approved. Ostensibly aimed at secret societies and criminal gangs, the regulations also deter the formation of unauthorized political or labor organizations. They have also been used to disband groups, such as unregistered house churches, deemed potentially subversive. Security forces maintain a close watch on groups formed outside the party establishment.

c. *Freedom of Religion.*—Religious freedom in China is subject to restrictions of varying severity. While the Constitution affirms toleration of religious beliefs, the Government restricts religious practice outside officially recognized and government-controlled religious organizations. The management and control of religion is the responsibility of religious affairs bureaus, which are staffed by officials who rarely are believers in religion. Communist Party officials state that party membership and religious belief are incompatible. This places a serious limitation on religious believers, since party membership is required for almost all high positions in government- and state-owned businesses.

The Government, after forcefully suppressing all religious observances during the 1966–76 cultural revolution, began in the late 1970's to restore or replace confiscated churches, temples, mosques, and monasteries. The official religious organizations administer more than a dozen Catholic and Protestant seminaries, nine institutes to train imams and Islamic scholars, and institutes to train Buddhist monks. Students who attend these institutes must demonstrate "political reliability," and all graduates must pass an examination on their theological and political knowledge to qualify for the clergy. The Government permitted Catholic seminarians from several cities to go to the United States in 1993 for additional religious studies. There have also been increased contacts between China and the Vatican.

The Government supervises the publication of religious material for distribution to ensure religious and political conformity. Religious books are not permitted in ordinary bookstores, and there are persistent complaints that the number of Bibles and amounts of other religious materials allowed to be printed fall far short of demand. Religious proselytizing is officially restricted to government-registered and sanctioned places of worship. Unauthorized proselytizing is proscribed and sometimes punished, although some discreet proselytizing and distributing of religious texts outside official channels is tolerated. Local authorities have confiscated private property under the guise of searching for illegal religious materials. Officially sanctioned religious organizations are permitted to maintain international contacts as long as these do not entail foreign control, but proselytizing by foreign groups is forbidden by law and regulation.

Buddhists are by far the largest body of religious believers in China. The Government estimates that there are 100 million Chinese Buddhists, most of whom are from the dominant Han ethnic group. Other Buddhists belong to Tibetan, Mongolian, and other ethnic groups. Han Buddhist leaders generally cooperate with the Government, and there have been few complaints of government restrictions.

In Tibet, however, where Buddhism and Tibetan nationalism are closely intertwined, relations between Buddhists and secular authorities continued to be tense in 1993. The Government tightly controls Tibetan Buddhism and does not tolerate religious manifestations that advocate Tibetan independence.

The Government condemns the Dalai Lama's political activities and his leadership of a "government in exile," but recognizes him as a major religious figure and has tolerated the open veneration of the Dalai Lama by Tibetans. The Government has spent large amounts of money on reconstruction of the main sacred sites, including the Potala Palace and a grand stupa to house the remains of the 10th Panchen Lama. Chinese officials have also publicly asked the Dalai Lama to assist in the process of finding the reincarnation of the 10th Panchen Lama, who died in 1989.

The practice of religion in Tibet is hampered, however, by the limits the Government imposes on religious education and on the number of monks in the religious community compared to traditional norms. Monks at some Tibetan monasteries known for their opposition to Chinese rule face severe travel restrictions and intense monitoring.

According to government figures, there are 17 million Muslims in China. In some areas with large Muslim populations, there continues to be concern regarding restrictions on the building of mosques and the religious education of youths under 18. Following the 1990 unrest in Xinjiang, the authorities issued regulations further restricting religious activities and teaching. China permits Muslim citizens to make the hajj to Mecca, and the number of those making the hajj has significantly increased in recent years. Nongovernment sources indicate that about 5,000 Chinese made the hajj in 1992.

The number of Christians has grown rapidly in recent years, albeit from a small base. Only those Christian churches affiliated with either the Catholic Patriotic Association or the (Protestant) Three-Self Patriotic Movement, which the Government established in the 1950's to eliminate perceived foreign domination of Christian groups, may operate openly. Active unofficial religious movements pose an alternative to the state-regulated churches. The unofficial, Vatican-affiliated, Catholic Church claims a membership far larger than the 3.7 million registered with the official Catholic church, though actual figures are unknown. In addition to the 5 million persons who are officially counted as following Protestantism, a large number of Protestants worship privately in "house churches" that are independent of government control.

Sporadic repression in some areas has reflected official concern over the Government's inability to control the rapid growth of membership in Christian groups. There continued to be credible reports in 1993 of efforts by authorities in some areas to rein in activities of the unapproved Catholic and Protestant movements, including raiding and closing a number of unregistered churches. In March public security officials disrupted a Protestant religious gathering in Shaanxi, beating many of those present. One man beaten later died, apparently of wounds suffered in the incident (see Section 1.a.). However, authorities in many areas tolerate the existence of unofficial Catholic and Protestant churches as long as they remain small and discreet. In some parts of China, official and underground churches seem to coexist and even cooperate. The Guangzhou House Church of Pastor Samuel Lamb (Lin Xiangao) continued to operate openly, although with frequent harassment by authorities.

A number of religious activists remained imprisoned in 1993, but others were released. There was some evidence that authorities have increasingly used short-term detentions, rather than long prison terms when dealing with unauthorized religious activities. Some of those released from penal detention were apparently placed under house arrest or other restrictions. The number of Catholic clerics in penal detention dropped sharply in 1992 and 1993, although the whereabouts of some reported to have been released could not be confirmed, and others remained under some restrictions. Catholic Gansu bishop Casimir Wang Milu and Hebei priest Pei Ronggui were released from long-term imprisonment during the year. Ministry of Public Security officials told a visiting U.S. official in October that there were no Catholic clerics remaining in detention. In November Bishop Peter Chen Jianzhang and auxiliary bishop Cosmas Shi Enxiang were reportedly released from either prison or house arrest in "old people's homes."

d. *Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation.*—The Government uses an identification card system to control and restrict individual residence location within the country. This system's effectiveness has eroded during China's shift to a more market-oriented economy. The need for a supplemental work force in the areas of fastest economic growth has led to official tolerance for a large itinerant population which is not in compliance with formal requirements to obtain permission to change residence. However, because this itinerant population lacks official status, access to housing, schooling, and the full range of employment opportunities can be restricted.

Some former inmates have been denied permission, under the "staying at prison employment" system, to return to their homes, a provision applicable to those incarcerated in both the "reform through labor" and the "reeducation through labor" systems. For those assigned to camps far from their residences, this constitutes a form of internal exile. The number of prisoners subject to this restriction is unknown. A Vice Minister of Justice told a British human rights delegation in late 1992 that no former prisoners were subject to such restrictions.

The Government routinely permits legal emigration and most foreign travel but has placed obstacles in the way of foreign travel by a few citizens on political or other grounds. Legal scholar Yu Haocheng continued to be unable to obtain permission to travel abroad. These obstacles extend to some dissidents' family members who have not themselves been active politically or accused of any wrongdoing by the Government. Other dissidents, including Hou Xiaotian, Li Honglin, and Qian Liyun, were eventually able to obtain the passports and exit permits needed to leave the country.

BEST COPY AVAILABLE

Regulations issued in 1990 require those college and university graduates who received free postsecondary education to repay the cost of their education to the State by working for 5 years or more before being eligible for passports to go abroad to study. For those who have overseas Chinese relatives or have not yet graduated, the regulations provide a sliding scale of tuition reimbursement exempting them from the work requirement. Implementation of these regulations has varied from place to place, and most students wishing to go abroad still managed to obtain passports. Persons subject to the regulations on study abroad appear to have had little trouble obtaining passports to visit relatives overseas. Political attitudes, however, are still a major criterion in selecting people for government-sponsored study abroad.

The Government has made a concerted effort to attract back to China persons who have studied overseas. To reassure them, Chinese citizens who return from overseas were exempted in 1992 from re-exit formalities, which had involved Public Security Bureau clearances. However, official media have stated that, before returning home, people who have joined foreign organizations viewed by the Government as hostile to China should quit them and refrain from activities that violate Chinese Law. Procurator General Liu Fuzhi warned in 1992 that people wanted by the public security authorities were not covered by the official assurances extended to other overseas scholars.

Some dissidents, such as Dai Qing and Liu Xiaobo, reentered China without incident in 1993. In August labor activist Han Dongfang, who had been allowed to leave for medical treatment in the United States in 1992, was expelled shortly after he returned. Han's passport was subsequently revoked by Chinese authorities on the grounds that he had engaged in activities hostile to China while overseas. Chinese border officials frustrated Han's several subsequent attempts to return to China. Another labor activist, Lu Jinghua, was refused entry in June when she arrived at the Beijing airport. Lu had fled China in 1989 before she could be arrested. A handful of prominent dissidents overseas continued to have difficulty extending or renewing passports.

The Government accepts the repatriation of citizens who have entered other countries or territories illegally. In 1993, in addition to the routine return of Chinese illegal immigrants found in Hong Kong, China accepted the return of several large groups of illegal immigrants from other countries, including Mexico, Honduras, and the Marshall Islands. Citizens illegally smuggled to other countries are often detained for a short time after their return to China to determine their identity and any past criminal record or involvement in smuggling activities. As a deterrent and to recover repatriation costs, authorities in some areas levy a fine of about $1,000 equivalent on returnees.

China does not have legislation in place that would allow it to grant refugee status and, with the exception of Vietnamese refugees of Chinese ancestry, has generally repatriated persons of other nationalities seeking to be recognized as refugees. The Ministries of Foreign Affairs, Public Security, and Civil Affairs, in collaboration with the United Nations High Commissioner for Refugees (UNHCR), are writing legislation that would allow China to honor its obligation as a party since 1982 to the 1967 protocol relative to the status of refugees.

Although the Government denies having tightened its policy on accepting Vietnamese refugees, in recent years very few such refugees have actually been resettled in China. According to the UNHCR, from 1989 to 1992 China granted admission and provided resettlement to about 130 Vietnamese refugees who came to China to reunite with their families and gave temporary refuge to 35 Vietnamese who subsequently settled in third countries. There were credible reports that larger numbers of Vietnamese have remained in China without official harassment. China has cooperated with Hong Kong to reduce the flow of Vietnamese refugees into the colony. China has not participated in the Comprehensive Plan of Action negotiated at the International Conference on Indochinese Refugees in 1989 but generally has abided by its principles.

Section 3. Respect for Political Rights: The Right of Citizens to Change Their Government

Citizens lack the means to change their government legally and can not freely choose or change the laws and officials that govern them. Citizens vote directly only for county-level people's congress delegates. People's congress delegates at the provincial level are selected by county-level people's congresses, and in turn provincial-level people's congresses select delegates to the National People's Congress. According to the 1982 Constitution, the National People's Congress (NPC) is the highest organ of state power. It elects the President and Vice President, decides on the choice of the Premier, and elects the Chairman of the Central Military Commission.

In some elections, voters are offered more candidates than positions, allowing a modest degree of choice among officially approved candidates. There were credible reports in 1993 that the candidates most favored by authorities were defeated in a handful of county-level elections and in at least two elections of governors by provincial people's congresses.

As is the case with the NPC, the election and agenda of people's congresses at other levels also remain under tight control by the Communist Party, the paramount source of political authority in China. The Constitution was amended in 1993 to ratify the existence of small "democratic" parties, but these play only a minor consultative role at most, and all pledge allegiance to the Communist Party. Thus, the Communist Party retains an explicit monopoly on political decision-making. The requirement that associations register and be approved makes it difficult for independent interest groups to form and affect the system. Within the Communist Party, a closed inner circle of a few senior leaders reserves the right to set ultimate policy directions. Some hold key positions within the standing committee of the Politburo, the Central Military Commission, or other organs, while others who are nominally retired wield great influence on at least selected issues.

Reversing previous moves to separate the party and government apparatus, at the National People's Congress in April General Secretary Jiang Zemin and several other senior party members were named to hold concurrent government positions.

Section 4. Governmental Attitude Regarding International and Nongovernmental Investigation of Alleged Violations of Human Rights

There are no independent Chinese organizations that publicly monitor or comment on human rights conditions in China. The Government has made it clear it will not tolerate the existence of such groups. Authorities in Shanghai took no action on a March application by several persons to register a proposed "human rights association." Public criticism of the Government's human rights record can be interpreted as "counterrevolutionary" activity and punished accordingly.

Limited academic study and discussion of concepts of human rights have been promoted since 1991. Research institutes in Shanghai and Beijing, including the Chinese Academy of Social Sciences, have organized symposia on human rights, established human rights research centers, and visited other nations to study human rights practices in these countries. Such activities appear to have originated in a desire to improve China's image abroad and strengthen the Government's ability to respond to criticism of its human rights record. Whatever the motivation, this process of study and dialog has exposed more Chinese to international standards and concepts of human rights. Three official White Papers on human rights subjects were published in 1991 and 1992. While the reports stridently defended Chinese practices and glossed over fundamental problems, they sparked a limited debate among academic experts on human rights problems in China that continued in 1993.

Despite the Government's professed adherence to the United Nations Charter, which mandates respect for and promotion of human rights, Chinese officials accept only in theory the principle that human rights are universal. They argue that each nation has its own concept of human rights, grounded in its political, economic, and social system and its historical, religious, and cultural background. China was active in international forums, including the World Conference on Human Rights in June and the annual U.N. Commission on Human Rights meeting in February, in support of this view and to deflect attempts to discuss China's human rights record. China remains reluctant to accept criticism of its human rights situation by other nations or international organizations. Its officials often criticized reports by international human rights monitoring groups, as well as past Department of State reports on human rights practices in China. By and large, Chinese officials continue to insist that criticism of China's human rights practices constitutes interference in China's internal affairs. Nevertheless, in 1993 Chinese authorities expanded their dialog with foreign governments on human rights issues in talks with a number of visiting delegations from the United States and other countries and also during visits abroad by Chinese leaders.

Chinese authorities have refused most requests by foreign human rights delegations to meet with political prisoners but did allow U.S. human rights officials to visit Yulo Dawa Tsering in Drapchi prison in Lhasa in October. Representatives of some international human rights groups visited China in 1993 but did so in an individual capacity and did not engage in an official dialog with the Government. A private American human rights monitor, however, did meet with midranking government officials on several occasions to discuss specific human rights cases.

Finally, while China has continued to engage in a human rights dialog with foreign critics, it has consistently taken the position that human rights practices should be assessed not on the basis of universal principles but rather in the context of local economic, political, and cultural conditions. The Government also maintains that human rights issues are internal matters and that external intervention on human rights issues constitutes interference with its sovereignty.

Section 5. Discrimination Based on Race, Sex, Religion, Disability, Language, or Social Status

While laws exist to protect minorities and women, in practice discrimination based on ethnicity, sex, and religion has persisted. Minorities, however, do benefit from an official policy of "privileged treatment" in marriage policy, family planning, university admission, and employment, as well as from disproportionate infrastructure investment in some minority areas.

Women.—The 1982 Constitution states that "women in the People's Republic of China enjoy equal rights with men in all spheres of life" and promises, among other things, equal pay for equal work. In fact, most women employed in industry work in lower skilled and lower paid jobs. Women hold relatively few positions of significant influence within the party or government structure. Persistent problems have remained with regard to the status of women, who have often been the unintended victims of reforms designed to streamline enterprises and give workers greater job mobility. Many employers prefer to hire men to avoid the expense of maternity leave and child care.

Reports by women of discrimination, sexual harassment, unfair dismissal, demotion, and wage cuts have continued. In 1992 the NPC enacted legislation on the protection of the rights and interests of women designed to assist in curbing these types of sex-related discrimination. While the gap in the education levels of men and women is narrowing, men continue to constitute the majority of the educated class, particularly the highly educated.

The Government continued in 1993 to condemn strongly and take steps to prevent and punish the abduction and sale of women for wives and prostitutes, abuse of female children, violence against women, and female infanticide. It has severely punished a number of people accused of such crimes. No nationwide statistics were available on the extent of physical violence against women. A May study on family violence reported that in Shanghai from 29 to 33 percent of domestic disputes from 1991–92 involved physical violence. In another 1993 study on the social status of women, 21.2 percent of urban wives and 31.4 percent of rural wives said there was frequent or occasional violence during family quarrels. The abduction of women remains a serious problem in some areas where local officials have resisted efforts of central authorities to stop it. Many discriminatory practices are rooted in traditional rural attitudes which highly value boys as prospective earners and as future caretakers for elderly parents. A number of provinces have sought to reduce the perceived higher economic value of boys in providing old age support by establishing or improving pensions and retirement homes.

In many areas, the ready availability of sonograms has facilitated selective abortion of female fetuses, contributing to a growing gap in the ratio of reported male and female births. Insistence that local units meet population goals exacerbates the problem, since traditional-minded parents often wish to ensure they have one or more sons without incurring official penalties. The Government has condemned sex-selective abortion and stated it is tightening access to sonogram results.

Children.—China does not condone violence against children, and physical abuse can be grounds for criminal prosecution. In January 1992, China passed a national law on the protection of juveniles. According to Chinese media, China's infant mortality rate has declined to 45 per 1,000 live births, severe malnutrition among children under 5 years of age has been "virtually eliminated," 95 percent of children have received immunizations, and primary school enrollment is at 97 percent. In January an English-language magazine reported on the problem of child abuse, noting that physical punishment was widespread, citing four cases from 1992 where children died from abuse. According to one study from Zhejiang province, 60 percent of 200 children surveyed said they would be beaten if they did not do well in school. In addition, Chinese officials indicated in October that there were about 200,000 homeless children in China out of a total of 300 million children under age 18.

National/Racial/Ethnic Minorities.—The 55 designated ethnic minorities constitute just over 8 percent of China's total population. Most minority groups reside in areas they have traditionally inhabited, with standards of living often well below the national average. Government development policies have helped raise minority living standards but have at the same time disrupted traditional living patterns. The Dalai Lama continued to state his concern in 1993 that the Government's plan

BEST COPY AVAILABLE

to develop Tibet's economy would lead to a massive influx into Tibet of Han Chinese. Tens of thousands of non-Tibetan entrepreneurs without residence permits have come to Lhasa, capital of Tibet, to engage in business.

In some instances, the Government has tried to adopt policies responsive to minority sensitivities but in doing so has encountered the dilemma of how to respect minority cultures without damaging minority educational and economic opportunities. In Tibet and Xinjiang, for example, there are two-track school systems using standard Chinese and minority languages. Students may choose which system to attend. One acknowledged side effect of this policy to protect and maintain minority cultures has been reinforcement of a segregated society. Under this separate education system, those graduating from minority schools are at a disadvantage in competing for jobs, which require good spoken Chinese, in government and business. These graduates must take remedial language instruction before attending universities and colleges.

The Communist Party has an avowed policy of boosting minority representation in the Government and the party, and a few members of minorities occupy local and national leadership positions. However, ethnic minorities are effectively shut out of most positions of real political and decisionmaking power. Some minorities resent Han officials holding key positions in minority autonomous regions. Ethnic minorities in Tibet, Xinjiang, Qinghai, and elsewhere have demonstrated against Han Chinese authority, but central authorities have made it clear that they will not tolerate opposition to Beijing's rule in minority regions.

People with Disabilities.—There is no legislation to ensure that buildings, even new ones, are accessible to those with handicaps. A State Council committee was established in October to coordinate policy toward the disabled under China's 1990 law on the handicapped. The results of the eighth 5-year plan for handicapped people, which ended in 1992, were discussed in October; schools for the disabled increased from 400 in 1988 to 1,000 in 1992, and special education increased six-fold. But according to the Disabled Person's Federation, only 6 percent of disabled school-age children are receiving primary education. There are 40,000 welfare enterprises nationwide providing work for the handicapped, and 1.26 million have benefited from rehabilitation projects. Concern that the disabled will lose jobs as enterprises emphasize productivity has led to the creation of a pilot project in which all state enterprises will be required to hire a certain number of disabled workers. The handicapped still suffer from social isolation, especially in rural areas, and some handicapped children are given to orphanages. At the end of December, the Government announced plans to adopt a new law on eugenics, but specifics of the law were not available at year's end.

Section 6. Worker Rights

a. *The Right of Association.*—China's 1982 Constitution provides for "freedom of association," but the guarantee is heavily diluted by references to the interest of the State and the leadership of the Chinese Communist Party. The country's sole officially recognized workers' organization, the All-China Federation of Trade Unions (ACFTU), ostensibly independent, is in fact controlled by the Communist Party. Independent trade unions are illegal. Though union officials recognize that workers' interests may not always coincide with those of the Communist Party, the Union Law passed by the National People's Congress in March 1992 states that the union is a party organ and its primary purpose is to mobilize workers for national development. The 1993 revised Trade Union Law requires that the establishment of unions at any level be submitted to a higher level trade union organization for approval. The ACFTU is the highest such organization, and it has not approved the establishment of any independent unions. While the foreign press has reported that some exist, because of severe repression they operate only deep within the shadows. The vast majority of workers have no contact with any union other than the ACFTU. There are no provisions allowing for individual workers or unofficial worker organizations to affiliate with international bodies.

The ACFTU's primary attention remains focused on its traditional constituency, state sector workers. The Trade Union Law mandates that workers may decide whether to join the union in their enterprise. By official estimate, 10 percent of workers in collectively and state-owned enterprises have chosen for their own reasons not to join. There have been no reports of repercussions for workers who have not joined ACFTU unions. Diversification of enterprise types over the last decade of reform has vastly increased the number of workers outside this traditional sphere of the ACFTU. In fact, over half of China's nonagricultural work force is now largely nonunion and outside the state industrial structure—in collectives, village and township enterprises, private and individual enterprises, and foreign-invested enterprises. In township and village enterprises, one of the fastest growing sectors of the economy, only one-tenth of 1 percent of workers are unionized. Unemployed workers are not considered union members.

Workers in companies with foreign investors are guaranteed the right to form unions, which then must affiliate with the ACFTU. According to Ministry of Labor national statistics, 30 percent of foreign-invested companies now have unions. Other official estimates show that about 10,000 trade unions with a total of 500,000 members have been established in the nearly 20,000 foreign-funded companies in Guangdong province. However, a 1993 embassy survey of foreign-invested ventures in Beijing indicated the unionization rate diminished from 60 percent in 1991 to 40 percent in 1993.

The right to strike, which had been included in China's 1975 and 1978 constitutions, was not retained in the 1982 Constitution. In general, the union law passed in 1992 assigned unions the role of mediators or go-betweens with management in cases of work stoppages or slowdowns. Nonetheless, well-documented work stoppages occurred in several locations in China during 1993. There were two highly visible strikes in Guangdong's Zhuhai City, namely a 3-day strike over wages at a joint-venture camera factory and a work stoppage at a joint-venture electrical components factory. Ministry of Labor officials broke with their past practice of denying the existence of strikes in China by giving details about recent strikes in Tianjin and Xian. Strikes in 11 foreign-invested enterprises in Tianjin were widely reported in the Chinese press. One particularly high profile case involved a foreign-owned footwear factory at which 1,200 workers struck over poor working conditions and alleged mistreatment of several of the workers by the management. The 11 enterprises were held up as examples of disregard for local regulations by foreigners and indications of the need to establish unions in foreign-invested enterprises. Strikes were uniformly resolved in favor of workers, and enterprises were required to bring facilities up to regulatory standards. Ministry of Labor officials have not provided any statistics on how many strikes occurred in 1993, but one Hong Kong newspaper reported that in the first half of 1993 there were 190 strikes and protests across China involving about 50,000 workers. It is not possible to determine the validity of this estimate.

Credible reports by foreign human rights organizations indicate that the Government has attempted to stamp out all clandestine union activity and that independent unions and worker groups feature prominently in lists of illegal organizations. In May four men were detained and later formally arrested for the crime of organizing a counterrevolutionary organization, the Shanghai Autonomous Workers Federation. Two of these men were released in early September. As noted in Section 2.d., labor activists Han Dongfang and Lu Jinghua have been refused reentry to China. The International Confederation of Free Trade Unions (ICFTU) alleges that in May and June of 1992 the Public Security Bureau (PSB) secretly arrested activists of the clandestine China Free Trade Union Preparatory Committee and appeared to have dismantled this organization. On May 16 another clandestine union group, the Free Trade Union of China, issued a manifesto. Preemptive arrests took place just before the June 4 Tiananmen anniversary. These included seven members of the clandestine Liberal Workers Union detained by the PSB to prevent them from circulating commemorative leaflets. Accurate figures on the number of Worker Autonomous Federation detainees still being held after the 1989 Tiananmen Square demonstrations are not available. The ICFTU alleges that hundreds of workers are still being held.

In response to an ICFTU complaint, the Governing Body of the International Labor Organization (ILO) in March requested that the Government modify "many provisions" of the Trade Union Act that are contrary to the principle of freedom of association, expressed concern at the severity of sanctions pronounced by the courts against members or leaders of Workers' Autonomous Federations, and asked that detained workers be released.

b. *The Right to Organize and Bargain Collectively.*—Under a 1988 law and current regulations, collective bargaining is permitted only by workers in private enterprises (which employ less than 3 percent of workers). There have been no reports of collective bargaining actually taking place. Most private enterprises are small and nonunionized. Thus far, without legal status as a collective bargaining body, the ACFTU's role has been limited to consultations with management over wages and regulations affecting labor and working conditions and efforts to serve as a conduit for communicating workers' complaints to the management of enterprises or municipal labor bureaus. The ACFTU has shown itself concerned with protecting workers' living standards in areas such as unemployment insurance.

Before wage reform, workers' salaries were set according to a uniform national scale based on seniority and skills. Following wage reforms, a total wage bill for each collectively and state-owned enterprise is set by the Ministry of Labor according to four criteria: 1) As a percentage of profits, 2) as a contract amount with the local labor bureau, 3) for money losing enterprises, according to a state-set amount, and 4) as an enterprise-set amount subject to ministry review. Individual enterprises determine how to divide the total among the workers, a decision usually made by the enterprise manager in consultation with the enterprise party chief and the union representative. Worker congresses have mandated authority to review plans for wage reform, though these bodies serve primarily as rubber stamp organizations. Wages are generally equal for the same type of work within enterprises. Incentives are provided for increased productivity.

The old permanent employment system is giving way to a more flexible contract-based system. However, the percentage of workers laboring under contract is still low, approximately 40 percent nationwide in state enterprises. Under the Labor Contract System, individual workers may negotiate with management over contract terms. In practice, only the very few workers with highly technical skills are able to negotiate effectively on salary and fringe benefits issues.

Worker congresses, held periodically in most Chinese enterprises, theoretically have the authority to remove incompetent managers and approve major decisions affecting the enterprise, notably wage and bonus distribution systems. However, worker congresses generally take place once a year and serve essentially to rubberstamp agreements worked out among factory managers, party secretaries, and union representatives. In smaller enterprises it is not unusual to find these three posts held by the same person.

A dispute settlement procedure has been in effect since 1987. The procedure provides for two levels of arbitration committees and a final appeal to the courts. Of the 50,000 cases brought for arbitration in 1992, most were resolved at the first or second level, with less than 5 percent reaching the courts. According to Labor Ministry officials, most arbitration cases are filed by contract workers or their employers, an indication, they assert, that the new contract system provides a clearer set of ground rules which both sides can attempt to enforce.

Laws governing working conditions in China's special economic zones (SEZ's) are not significantly different from those in the rest of the country. However, wages in the SEZ's are significantly higher than in other Chinese enterprises. Unskilled laborers can expect much higher pay in southern China generally, but highly skilled workers are the main beneficiaries of the wage discrepancy.

The 1982 Trade Union Law prohibits antiunion discrimination and specifies that union representatives may not be transferred or terminated by enterprise management during their term of office. Unionized foreign businesses generally report pragmatic relations with ACFTU representatives. The ACFTU's stated goal is to establish unions in all foreign-funded enterprises within 2 to 3 years.

c. *Prohibition of Forced or Compulsory Labor.*—Chinese penal policy emphasizes "reform first, production second," but compulsory labor is an integral part of the system both to rehabilitate prisoners and to help support the facilities. Almost all persons the courts sentence to prison, including political prisoners, are required to work, usually for little or no compensation. China also maintains a network of "reeducation through labor" camps (see Section 1.e.), the inmates of which generally must work. Reports from human rights organizations and released prisoners demonstrate that at least some persons in pretrial detention are also required to work. The number of workers in prison for nonviolent labor-related activity is not known. (See Section 1.e.) According to prison authorities, prisoners in labor reform institutions work a full 8-hour day and must also engage in both ideological and basic literacy and skills training. Justice officials have stated that in labor reeducation facilities there is a much heavier emphasis on education than on labor. Most reports conclude that work conditions in the penal system's light manufacturing factories are similar to those in ordinary factories, but conditions on farms and in mines can be harsh. As is the case nationwide, safety is often neglected, putting prisoners at risk, but there were no available figures for casualties in prison industry.

Some penal facilities contract with regular industries for prisoners to perform light manufacturing and assembly work. In 1992 Chinese newspapers reported that Chinese prison labor is used for many types of production (examples in parentheses), including heavy industry (coal, steel), light manufacturing (clothing, shoes, small machine tools), and agriculture (grain, tea, sugar cane). In 1991 the Chinese Government published a reiteration of its regulations barring the export of prison-made goods. On August 7, 1992, the U.S. and Chinese Governments signed a memorandum of understanding (MOU) prohibiting trade in prison labor products. The U.S. Customs Service has issued detention orders barring a number of products reportedly made by prisoners from entering the United States and detained several shipments of such goods in 1993. Under the MOU the Chinese have provided requested investigation reports on 31 suspected facilities. Five facilities investigated by the Chinese were found to have had prisoners engaged in some aspect of export production at some point in time, though not necessarily to the United States; of these, two with export activities at the time of the investigation reportedly received unspecified administrative sanctions. U.S. officials have conducted on-site visits of three suspected facilities and another facility visit has already been scheduled. The detention orders on two of the visited facilities were lifted, one in December 1993 and one in January 1994. The other case is still under study.

d. *Minimum Age for Employment of Children.*—Regulations promulgated in 1987 prohibit the employment of school age minors who have not completed the compulsory 9 years of education. Press reports indicate that dropout rates for lower secondary schools (ages 12–15 years) in several southern provinces exceed 9 percent (the national average is 2.2 percent). This suggests the booming economy in that region is enticing more children to leave their studies to find jobs. In poorer, isolated areas, child labor in agriculture is widespread. Most independent observers agree with Chinese officials that China's urban child labor problem is relatively minor. No specific Chinese industry is identifiable as a significant violator of child labor regulations. In 1991 the State Council issued regulations imposing severe fines, withdrawal of business licenses, or jail for employers who hire laborers under 16 years of age.

e. *Acceptable Conditions of Work.*—China does not have a labor code. A draft has been circulating since mid-1992. Due to the complexity of incorporating myriad existing regulations into the proposed unified code, it remains unclear if it will be made law. Labor regulations continue to be promulgated at both the national and provincial level, but they are not uniformly enforced.

There is no minimum wage in China. However, the Ministry of Labor is currently drafting minimum wage regulations. Anticipating the issuance of the regulations, some local governments, particularly those in more highly developed east coast areas, have already drafted regulations on minimum wages. On the higher end, in Zhuhai, Guangdong Province, the minimum monthly wage has been set at $62 (350 yuan at the official exchange rate). Generally the levels have been set to provide for a decent standard of living for a worker and his family. Minimum wage figures do not include free or heavily subsidized benefits which employing work units commonly provide in kind, such as housing, medical care, and education. Factories or ministries are required to pay 70 percent of final monthly wages to workers laid off because of a factory closing or reduction in force, but there have been numerous reports of violations of this policy.

The national standard workweek, excluding overtime, is 48 hours with a mandatory 24-hour rest period. In the past, 3 to 12 working hours per week were generally spent in political study or "education" on current social issues. In recent years, many factories have abandoned political study either for regular work or for an additional half day off each week. Starting in 1991, factories (including joint ventures) were allowed to adopt shorter workweeks. Despite laws mandating a standard 8-hour workday throughout the country, there continue to be reports of workers in the SEZ's regularly working 12 hours daily.

Occupational health and safety are constant themes of posters and campaigns. Every work unit must designate a health and safety officer and the International Labor Organization has established a training program for these officials. Moreover, while the right to strike is not provided for in the 1982 Constitution, the Trade Union Law explicitly recognizes the right of unions to "suggest that staff and workers withdraw from sites of danger" and to participate in accident investigations. Labor officials reported that such withdrawals did occur sometimes in 1993. Nonetheless, pressures for increased output, lack of financial resources to maintain equipment, lack of concern by management, and a traditionally poor understanding of safety issues by workers have contributed to a continuing high rate of accidents. State prosecutors deal annually with thousands of negligence and accident cases. In November 1992, the Standing Committee of the National People's Congress passed a law on mining safety, which established standards and provided for enforcement, including fines and imprisonment. Labor officials were unable to provide statistics verifying the effects of the law, but they claimed that despite substantially increased across-the-board production in mining output, mine accidents were down in the first half of 1993.

More than 15,000 workers died in industrial accidents in 1992, 63 percent of them miners. Because of the lack of legislation to bring together diverse and often unpublished regulations in other health and safety areas, compliance with existing regulations is haphazard. Official Chinese press reports in July announced the issuance of a State Council circular stressing safety in production following "sharp increases in job accidents in the first half of this year." Officials blame the increases on lax enforcement of safety regulations in the rapidly expanding rural, foreign-funded, and private industry sectors.

As fires and explosions in southern China amply demonstrated in 1993, enforcement of China's safety regulations, particularly in the booming light industry sector, continued to be lax. In late November, 81 workers died in a blaze in a Shenzhen toy factory because safety precautions were not taken and warnings from the local labor ministry office had allegedly gone unheeded.

Order Code FLIB 00001

FOREIGN LAW ISSUE BRIEF

China's White Paper on Human Rights

April 1993

by
Tao-tai Hsia and Wendy I. Zeldin
Far Eastern Law Division

Law Library • The Library of Congress

China's White Paper on Human Rights

SUMMARY ANALYSIS

It has been over a year since the People's Republic of China (PRC) issued its White Paper on Human Rights. Clearly produced in response to pressure from Western democratic countries, and from the United States Congress in particular, its very issuance represents a step forward in China's approach to human rights questions. However, the contents of the White Paper do not offer a frank and truthful picture of the human rights situation in China, either in the past or the present. The basic premises of the White Paper echo the Chinese Communist view that human rights lie within the sovereignty of each country, that human rights practices vary from country to country, and that the right to subsistence is the foremost human right for the Chinese people. Most of the paper consists of an enumeration of rights that are granted by the Constitution of the PRC and of descriptions, with heavy doses of statistics, of achievements made under the socialist system. There is virtually no mention of abuses or problems and only fleeting acknowledgment is made that more needs to be done to improve human rights. Moreover, the White Paper seems to have had little impact on China's basic human rights policy since its issuance. Despite the release of a few prominent political prisoners, various forms of political and social control remain in place; some have even been tightened.

The various rights that the White Paper claims are accorded to the people are in fact not extensively enjoyed, for the following reasons.

- China is a dictatorship under Leninist-style one-party rule. This is enshrined in the preface to the Constitution as part of the "four cardinal principles."

- The primacy of the rule of man over the rule of law persists.

- The concepts of legality and due process are not well understood in the PRC, in part because legal education has been lacking. In particular, none of the leaders in China, including the members of the Standing Committee of the Politburo, have a law degree. Nor do the President of the Supreme People's Court and concurrent Chairman of the Central Political-Legal Committee (a Party group that is in charge of political and legal matters and that directs the investigation, prosecution, and trial of important cases, such as those involving the death penalty), the Procurator-General, the heads of the Ministry of Justice, Ministry of Public Security (the police), and Ministry of State Security (the Chinese KGB) have a formal legal education. Hence, they do not really know what legality and due process are.

- Key structural elements in the legal system that are vital for the protection of human rights are lacking in the socialist legal system. These include separation of powers, judicial independence, and due process.

- The State ignores its own laws. For example, a State Council circular regarding students studying abroad declares that anti-government activities carried out by a returning student, if abandoned, will not be punished, and the circular offers a pardon to students who have engaged in such activities. This goes against both the PRC Criminal Code and the Constitution. Under the former, the anti-government activities described in the circular could be considered counterrevolutionary crimes and hence punishable even if committed overseas; under the latter, granting special pardons falls within the power not of the State Council, but of the Standing Committee of the National People's Congress.

- The Chinese Communist Party controls and interferes with judicial work. One very clear indication of this is the fact that the Party's Central Political-Legal Committee, noted above, is headed by Ren Jianxin, who is also President of the Supreme People's Court. The former head of the Central Political-Legal Committee was Qiao Shi, a leading figure in public security work, who has now been named Chairman of the Standing Committee of the National People's Congress.

- Key laws often contain vaguely written, sweeping provisions, such as those on counterrevolutionary crime in the Criminal Code. Chinese jurists have been urging for years that these provisions be done away with or be incorporated under crimes of sabotage to better conform with international practice.

- Many laws are still unpublished and are circulated "for internal use only."

- The system of placing individuals who have been convicted of a crime, or sometimes who have not been tried and convicted but are detained by the police, in forced labor camps and factories is riddled with abuses, ranging from the use of torture and forced confessions, to keeping prisoners at work on prison farms or in labor camps after the expiration of their terms. Reeducation and rehabilitation through labor and sheltering for examination, two forms of non-criminal detention, are considered administrative sanctions and therefore the police have the authority to apply them as a disciplinary measure for offenses not deemed serious enough to be criminally punished. Thus, persons assigned to these forms of detention never appear before a court to have their cases heard; they are imprisoned or detained without trial. This extra-judicial nature of the measures leads to such abuses as the arbitrary taking into custody of people who have not violated the law and the incarceration of detainees beyond the prescribed time limits for the sanction.

All of the above shortcomings have been criticized by the Chinese themselves. Thus far, however, very little has been done to change the system.

IMPLICATIONS FOR U.S. POLICY

Despite the superficiality of the White Paper, the fact that it was released shows that the leaders of the PRC are sensitive to criticism. The sending of a human rights delegation abroad and the receiving of foreign human rights delegations in China, the publication of a first-of-its-kind tome on human rights, and Chinese leaders' somewhat more conciliatory remarks on human rights all indicate that there is a trend towards relaxation of previous hard-line positions. Furthermore, China does not want to jeopardize its enjoyment of most-favored-nation (MFN) status with the U.S.; the PRC had a twenty billion dollar trade surplus with the U.S., its third largest trade partner, in 1992 and it is America's eighth largest trade partner. To encourage China to open up in the area of human rights, therefore, the U.S. could, using foreign trade as leverage, more strongly support the burgeoning law school-trained legal profession by pressing China to take steps to correct some of the more basic legal abuses described above (e.g., lack of judicial independence, counterrevolutionary crime, sheltering for examination, disregard for legality), in line with Chinese jurists' own criticisms. The renewal of MFN status could be conditioned on the PRC's making headway along these lines. Chinese leaders would be more likely to accept the imposition of such conditions (although without admitting so) because they have never formally rejected the proposals for change suggested by the jurists and they themselves claim that they want to improve the legal system. In this way, perhaps, concrete, lasting improvements in human rights could be realized in China. Moreover, the U.S. currently has a unique opportunity to use this pressure to good advantage, because Ren Jianxin, the President of the Supreme People's Court and the head of the Central Political-Legal Committee, comes from a background of foreign trade, having worked for China's central foreign trade organ for decades. Because of this background, he would be more sensitive to the use of trade as leverage; because he is in charge of political-legal matters, he is in a position to make some changes.

Economic considerations make the U.S. reluctant to deny China MFN status. That status should not be granted, however, without improvements in the rule of law in the PRC. Over the long term, such improvements should result in the advancement of human rights as well.

INTRODUCTION

With the adoption of the Universal Declaration of Human Rights soon after World War II, on December 10, 1948, human rights gradually became part of the foreign policy of democratic countries. The United States began to pay particular attention to human rights under the Carter administration, and the human rights situation of a country is often a key factor in determining whether or not it will receive U.S. economic and military assistance. The Universal Declaration of Human Rights sets a minimum standard of human rights for the governments of all nations regarding the protection of citizens' civil and political rights. These rights include freedom of thought and expression, peaceful assembly, freedom of movement and residence within the country and the right to leave or return to one's country, the right to participate in government, the right to due process and the presumption of innocence until proven guilty, as well as certain economic rights, such as the right to employment, education, and so on. On the basis of the preface and article 2, member states have a commitment to carry out their obligations under the Declaration and "interference in domestic affairs" would not be an acceptable excuse for refusal to do so. Article 2 says that everyone is to enjoy all the rights and freedoms mentioned in the Declaration, regardless of race, skin color, sex, religion, political or other views, national or social origin, property, birth or other status. Paragraph 2 continues: "Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs," regardless of any restrictions there might be on the country's sovereignty.[1] Article 30 states that no nation, group, or individual may so interpret anything in the Declaration to imply that they have the right to engage in any act aimed at the destruction of any rights or freedoms set forth.

On November 1, 1991, August 10, 1992, and September 22, 1992, the Information Office of the State Council of the People's Republic of China (PRC) issued, for the first time in its history, white papers on various aspects of human rights in China. These are the White Paper on Human Rights in China, in ten sections,[2] the White Paper on Criminal Reform in China, in eight sections,[3] and the White Paper on Tibet--Its Ownership and Human Rights Situation, in twelve sections.[4] The publication of these white papers represents a new approach to the human rights issue by the PRC. China has taken the offensive in explaining its human rights situation to the world, marking a change in attitude from an openly hostile to a more conciliatory stance on human rights. In the past, human rights were a "forbidden zone" of discussion.

Western pressure led China to issue the white papers, and they were written for foreign, not domestic, consumption. At least three overlapping factors figured in China's response to this pressure. First, China wants to present a good human rights image to the West. The June 4, 1989, massacre focused international attention on the human rights situation in China. Western countries implemented sanctions against the PRC because of human rights violations, and PRC dignitaries who traveled abroad often met with protests and criticism.[5] Second, because of the collapse of the Soviet Union and of the communist regimes of Eastern Europe, which used to be the main target of Western human rights diplomacy during the Cold War, human rights groups have shifted more of their attention to China. Moreover, as a member of the United Nations, China is bound by the U.N. Charter and by other compacts of subordinate or affiliated international organizations. China has had to recognize, even if grudgingly, that human rights have no national boundaries. Thus, the preface to the White Paper states: "The Chinese government has also highly appraised the Universal Declaration of Human Rights, considering it the first international human rights document that has laid the foundation for the practice of human rights in the world arena.... Despite its international aspect, the issue of human rights falls by and large within the sovereignty of each country." This can be viewed as a tacit admission that there are certain restrictions on the exercise of state sovereignty over human rights, even if the emphasis in the White Paper is on human rights being within the sphere of a nation's sovereignty. Third, China wants to avoid the possible imposition of economic and trade sanctions by Western countries, which in the past have been applied in order to pressure China to change its human rights stance, especially since China has been making extensive preparations to join GATT. There is also concern about U.S. renewal of China's most-favored-nation status.

---

[1] Universal Declaration of Human Rights, adopted Dec. 10, 1948, G.A. Res. 217A (III), 3 U.N. GAOR (Resolutions, pt. 1) at 71, U.N. Doc. A/810 (1948), The International Covenant on Economic Social and Cultural Rights (adopted Dec. 16, 1966, and entered into force on Jan. 3, 1976) and the International Covenant on Civil and Political Rights (adopted on Dec. 16, 1966, and entered into force on Mar. 23, 1976) have a similar provision.

[2] For an English version, *see* 34:44 *Beijing Review* 8-45 (Nov. 4-10, 1991).

[3] For an English version, *see* 35:33 *Beijing Review* 9-24 (Aug. 17-23, 1992).

[4] For an English version, *see* 35:39 *Beijing Review* 9-42 (Sept. 28-Oct. 4, 1992).

This paper will first present some of the major obstacles to improving human rights in China before looking at the White Paper on Human Rights itself. It will then juxtapose information set forth as fact in the White Paper with arguments and evidence to the contrary. The paper will also provide some statements made by Chinese leaders on the subject of human rights.

IMPEDIMENTS TO HUMAN RIGHTS IN THE PRC

Lack of Separation of Powers and Judicial Independence

Under Chinese communism, law is an instrument to be used in ruling the country in conjunction with setting "correct directions and policies."[6] In the case of a conflict between policy and law, policy prevails. The Western democratic concept of separation of powers has been viewed by Chinese legal theoreticians as a capitalist construct that has no place in a classless society and that goes against the dictum of absolute leadership by the Communist Party.[7]

Nevertheless, after the ouster of the Gang of Four and the advent of the Deng Xiaoping era in China in the late 1970s, one of the main charges of the Third Plenum of the Eleventh Party Congress (Dec. 18-22, 1978) was to rectify the situation of the lack of separation of Party and government organs, which had drastically worsened during the ten years of the Cultural Revolution (1966-1976). The development of the legal system in general was a top priority of the Deng regime. As a result, separate police organs, procuratorates (roughly the equivalent of prosecutorial units in common law countries), and courts were reconstituted, after having had their functions blurred during the Cultural Revolution years. The Constitution of 1982, as well as the Criminal Procedure Code of 1979,[8] state that the people's courts, people's procuratorates, and public security organs (police), in handling criminal cases, must have responsibility for their respective areas of jurisdiction, mutual coordination, and mutual checks and balance. Furthermore, the Constitution says that people's courts are to exercise judicial power independently, "in accordance with the provisions of the law, and are not subject to interference by any administrative organ, public organization or individual." In addition, judicial administrative organs have been established, so that there is now a four-part division of functions rather than a tri-partite one.

---

[5] "Red Paper on the Violation of Human Rights in Communist China," *Kuo shih p'ing-lun* [National Affairs Review] (Dec. 1991) (New York).

[6] Feng Ertai *et al. comp.*, *Falü dawen sibai ti* [Answers to 400 Questions of Law] 13 (Shanghai, Xuelin Press, Aug. 1982) [hereinafter Answers].

[7] Answers, at 13.

Despite these changes, the basic incompatibility between the principle of judicial independence and adherence to the Party line remains. Party leadership of judicial work has been described as having two aspects. First, there is leadership in terms of line, direction, and policy. The Party's political-legal committees are to instruct the judicial cadres on how to use "the weapon of law" to serve the central leadership and on how to protect the people's democratic dictatorship. Second, there is leadership over training, to see to it that the judicial cadres are thoroughly versed in communist ideology.[9] As for the actual handling of cases, simple and straightforward matters are to be handled by the court and the procuratorate; important and complicated cases, especially those involving major directives and policies, are to be automatically reported by the court and procuratorate to the political-legal committee of the Chinese Communist Party, which will provide instruction.[10] The workings of the political-legal committees have been described as follows:

> At the central level, a member of the Central Standing Committee of the Politburo is in charge of political-legal work. Similarly, at the local level, the person in charge of the political-legal section is also a member of the standing committee of the local Party committee, and sometimes concurrently serves as head of the Public Security bureau. Important cases are usually handled by the Political-Legal Leadership Small Group [in other years and today known as the Party's Central Political-Legal Committee, in charge of political and legal matters at the national level], which directs investigation, prosecution, and trial. In particular, cases involving the death penalty must be discussed and decided by the Political-Legal Leadership Small Group. The procuratorates, courts, and public security bureaus will work together as a unit in handling a case and will conduct the investigation, prosecution, and trial together. They give it a good name, calling such an arrangement the way to improve efficiency in handling cases.[11]

---

[8] The Constitution was adopted and promulgated on Dec. 4, 1982; the Criminal Code was adopted on July 1, 1979, promulgated on July 6, 1979, and went into effect on Jan. 1, 1980.

[9] Answers, at 14.

[10] *Id.* at 15.

[11] He Ping, "Inundation of Bad Laws: An Analysis of the Communist Chinese Political-Legal System," *Tansuo* [The Quest] 52 (Brooklyn, N.Y., May 1990). He says that since the name change from Central Political-Legal Committee to Political-Legal Leading Small Group was never formally made public, the CCP never had any intention of relinquishing its hold on the political-legal system.

Thus, in the Chinese judicial system, there is not only administrative adjudicative review of cases by regular judicial organs, but examination and review by organs of the Chinese Communist Party. Although at the dawn of the Deng era the Central Committee supposedly abolished Party secretary interference in judicial cases, the practice was never actually discontinued in the handling of important cases. Party interference was particularly prevalent during the anti-crime campaign of 1986. In many instances, the heads of the organs involved in judicial work, under the leadership of the political-legal committee of the Party at the given level, worked jointly on handling cases. In 1988, in furtherance of the policy of separation of party and government, these political-legal committees to which judicial organs reported were disbanded, and the Central Political-Legal Committee at the national level was changed to the less powerful Political-Legal Leading Small Group.[12] However, in the spring of 1990, in the aftermath of the massacre near Tiananmen Square, the political-legal committees were revived[13] in order to tighten Party control over the courts, procuracy, and the police,[14] a reversion to the old ways of handling judicial matters. At present, the Central Political-Legal Committee of the Party commands the entire judicial system, including the Ministry of Public Security, the Ministry of State Security, the Ministry of Justice, the Ministry of Civil Affairs, the courts, the procuratorates, and the armed police. Thus, the political-legal committees at different levels are the actual behind-the-scenes decisionmakers and the courts, especially for significant cases, are essentially a facade. Especially in judicial matters, the fact that there is a law does not mean that it will be observed.

Some Chinese jurists acknowledge that the most serious problem in judicial practice in China is the improper interference from Party organs and administrative organs. Several other factors also seriously affect the ability of judicial organs to exercise their functions and powers independently in accordance with the law.[15] Many judicial personnel still view holding power in their own hands as their special privilege and find judicial procedures too detailed and restrictive. The judicial organs also compete with each other in claims of importance. Some judicial workers consider this ranking to be as follows. They view the public security organs, which hold the real power, as the most important organ; the procuracy, which rubberstamps documents issued by the police, as number two; the court, which usually acts in a merely pro forma manner, as number three; and the judicial administrative organ as number four. Often, the responsible persons of the basic-level Party unit do not pay any heed at all to the political-legal workers. They also interfere in the appointment of judicial personnel. Yet another factor is the poor quality of judicial personnel. Even though the situation has been improving, many of them lack professional training and have a generally poor knowledge of the law.

---

[12] Thus, the *Law Year Book of China 1989* (for the year 1988), published in the spring of 1989 (Beijing, Legal Press, Mar. 1990), refers to the Central Political-Legal Small Group (p. 1132), whereas the *Law Year Book of China 1988* (Beijing, Legal Press, Mar. 1989), still lists the Central Political-Legal Committee (p. 857).

[13] At the National Conference on Political-Legal Work (Feb. 28-Mar. 6, 1990). Qiao Shi, head of the Political-Legal Leading Small Group, called for all Party organizations to be strengthened and a decision was made to restore political-legal committees at every level, headed by local or provincial-level Party committee standing committee members, thereby strengthening CCP control over judicial organs. 409 *Chung kung wen t'i tzu liao chou k'an* [Weekly of Materials on the Problems of Communist China] 18 (Mar. 26, 1990).

[14] Reported by Willy Wo-lap Lam, *South China Morning Post* (Hong Kong), Apr. 4, 1990, at 10, as carried in Foreign Broadcast Information Service, *Daily Report: China*, Apr. 4, 1990, at 22 [hereinafter FBIS].

[15] *See* "Summary of the Proceedings of the First Academic Conference on the Theory and Practice of the Construction of the Socialist Legal System of China," *in* Zhang Guohua, *ed.*, *Zhongguo shehui zhuyi fazhi jianshe lilun yu shijian* [Theory and Practice of the Construction of the Socialist Legal System of China] 526 (Xiamen, Lujiang Press, 1986), and Huo Zhen, "On the System of Division of Powers Among the Police, Procuracy, Courts, and Judicial Administrative Organs and Their Mutual Relationship," 12 *Fala* 82 (1986) [reprint journal].

Compulsory Labor and Extra-Judicial Measures

Since its inception, the People's Republic of China has used forced labor as a means of reforming convicted criminals as well as persons deemed socially deviant. Reform through labor (*laodong gaizao*, or *laogai*), the basic program of the PRC's correctional system, may be applied to anyone convicted of a crime in a people's court and physically able to work. It is a separate program from reeducation and rehabilitation through labor (*laodong jiaoyang*, or *laojiao*), the second component of China's system of compulsory labor. *Laojiao* is an administrative, not a criminal, sanction and is extra-judicial in nature. That is, those assigned to it have not been tried by a court of law and convicted of any crime; they are imprisoned without a trial and it is the police, not the courts, who have the power to apply the measure. For example, *laojiao* may be applied in cases of prostitution, gambling, or involvement in various activities related to pornographic materials. However, it has also been used throughout the history of the PRC to incarcerate persons whose political purity was deemed suspect. Under *laojiao*, people may be kept imprisoned for up to four years. The main piece of legislation that covers *laojiao* is the Provisional Measures on Reeducation and Rehabilitation Through Labor of 1982.[16]

"Sheltering for examination" (*shourong shencha*), which is not well known in Western countries, is another extra-judicial administrative measure handled by the police. In theory, it is to be used only for persons suspected of committing crimes while roaming from place to place or who have committed criminal acts but refuse to reveal their name, address, or background. Among those targeted are drifters, repeat offenders, recidivists, or suspected participants in group criminal activities. Sheltering for examination is not to be used for offenders who commit crimes in their local area, whose background is clear, and in regard to whom there is evidence to prove that they have committed the crime. The purpose of sheltering for examination is to hold the suspects in reformatory institutions, while an investigation is conducted to determine the exact nature of their criminal activities. The "shelters" where they are held, however, are not for humanitarian purposes, as the name might imply, but are sequestered centers of incarceration for which secret regulations have been applied. The time limit of detention is generally to be one month, but is extendable to a maximum period of three months; for persons who do not cooperate in providing information, the period of incarceration can extend indefinitely. While both are extra-judicial measures, at least there is a law that covers reeducation through labor; there is no published, enacted law for sheltering for examination, only a policy. It has been a matter of debate among Chinese jurists as to whether sheltering for examination should be retained but legalized or be completely abolished.

---

[16] Issued by the Ministry of Public Security and distributed by the State Council on Jan. 21, 1982.

Although reeducation and rehabilitation through labor and sheltering for examination are deemed administrative measures, there is some confusion as to their real legal status. Both have been abused by the authorities to keep those viewed as undesirable elements under lock and key. As one Chinese commentator has noted in regard to rehabilitation through labor,

> The targets, scope, conditions, and requirements of rehabilitation through labor are not clear, and in handling concrete cases one would find it difficult to differentiate what should fall under rehabilitation through labor, what under administrative punishment, and what should be considered a crime under the Criminal Law. As a result, there is confusion and sometimes one is substituted for the other.[17]

During and after the Tiananmen massacre, the police used such methods as sheltering for examination to detain people without formally arresting them. In addition, detainees have been held well beyond the lawful time limits, under this measure and under regular measures of detention. On September 1, 1992, for example, about a month after he had quietly returned to China, the student activist leader Shen Tong was placed under residential surveillance (*jianshi juzhu*) and two other Chinese citizens were also detained a few hours before they were to hold a news conference to discuss China's human rights violations and to announce the founding of a human rights group in the PRC. Shen was held in custody for nearly eight weeks until he agreed to depart immediately for the U.S., one of his companions was subsequently released, and the third was still in custody at the end of 1992.[18] Normally, residential surveillance, which does not constitute formal arrest, is used only when the measure of awaiting trial out of custody under the sponsorship of a guarantor (*qubao houshen*) cannot be used because a guarantor cannot be found; it is seldom used in ordinary circumstances, let alone for persons regarded as dissidents. The authorities evidently did not give Shen Tong the chance to secure a guarantor, probably because the use of residential surveillance limited Shen's freedom to a greater extent and served as more of a deterrent to others. The Chinese authorities contended that Shen Tong broke Chinese law because he did not apply to the government for approval to hold the press conference and to set up his group (although the Constitution provides for freedom of association), yet they did not arrest him. They made a rather odd and arbitrary use of residential surveillance instead, ignoring their own laws, in order to avoid creating a major incident that might further tarnish China's image.

THE WHITE PAPER ON HUMAN RIGHTS

Following the paper trail, including the Constitution and laws as well as documents like the white papers, is not very useful in studying human rights in China. Provisions of the law give a veneer of legality that obscures the facts. The White Paper on Human Rights covers up China's poor record of human rights by omitting mention of what happened in the past and by ignoring abuses that are occurring in the present. While the human rights situation in China today, compared with that in the Cultural

---

[17] Bao Suixian, "A Preliminary Discussion on Perfecting the Legislation of Our Country's Reeducation and Rehabilitation Through Labor System," 2 *Falü kexue* [Law Science (Journal of the Northwest Institute of Political Science and Law)] 52 (Mar./Apr. 1991).

[18] United States Department of State, *Country Reports on Human Rights Practices* 542 (Washington, U.S. Gov't. Print. Off., 1993) [hereinafter Human Rights Report]. This annual report, originally titled "Report on Human Rights Practices in Countries Receiving U.S. Aid," was first published in 1979.

Revolution and previous periods, does undoubtedly reflect progress, the failure to admit to current flaws persists.

Chapter 1. In expounding on the right of subsistence, the First Chapter of the White Paper gives figures on the numbers of Chinese people massacred by foreign powers from 1840 to 1949 and how the Chinese fought against these powers to win this basic right. By making human rights equivalent to the right of subsistence, and specially by emphasizing the right of subsistence as the most important right ahead of such rights as freedom of expression or freedom of the press, the Chinese Communists can hide their poor record of human rights in these other areas. It is also an attempt to put Western countries on the defensive by focusing on how the latter violated human rights in China. While imperialist countries did commit atrocities in China, violating Chinese human rights, little attention is paid to what the former Soviet Union did to China, probably because in the early years of the PRC China was closely allied with the Soviets. Russia and Japan divided Manchuria into two parts, making the southern and northern parts spheres of influence of and treating them as their own colonies. Only a few days before the Japanese surrender to the Allies in 1945, the Soviet Union took advantage of the Soviet declaration of war against Japan to occupy and loot Manchuria. The White Paper also blames only the KMT (Kuomintang, or Nationalist Party), the ruling party at the time, for the starvation caused by China's civil war in the late 1940s, noting that ten million died of starvation in 1946 and in 1947 more than 100 million people were affected by famine.

Before the PRC was established in 1949, one could argue, as the White Paper does, that the "Three Mountains"--imperialism, feudalism, and bureaucratic capitalism--were responsible for the sorry human rights situation in China. However, the White Paper fails to mention that between 1949 and 1960, under Communist rule, the number of people who died because of famine or bad living conditions ranges anywhere from 5 million to 100 million (there are no accurate statistics). According to documents that have been made public by the PRC,[19] from 1950 to 1957, 701,000 people were killed, 1,290,000 were imprisoned, and 1,230,000 were placed under control. During political campaigns launched in 1951 and 1952, some 200,000 Chinese Communist Party (CCP) members and cadres were punished. In 1957, in the Anti-Rightist Movement, more than half a million people were labeled rightists and lost their political rights and freedoms. During the Great Leap Forward of the late 1950s, millions of peasants (estimates range from 3 to 40 million) were starved to death. The Cultural Revolution of 1966 to 1976 saw more than 700,000 persons directly victimized by the ruling Gang of Four; more than 100 million people were victimized in varying degrees. Subsequently, wrong verdicts issued during that period were overturned and more than three million cases were corrected, but that may only have represented a fraction of those wrongly judged. To this day, no accurate study has been made of how many victims there actually were. Therefore, the claim that under communism the people's right of subsistence has been protected and that without the socialist system China would not have made such great achievements in human rights is untenable.

Chapter 2. In a Communist country ruled by a Leninist-style one-party dictatorship, where adherence to a single ideology is emphasized and overt dissent from the basic tenets is viewed as criminal, the citizens cannot enjoy many political rights. Yet Chapter 2 of the White Paper says that since the founding of new China, the people are the real masters of the country and they enjoy a wide range of political rights under the Constitution. It proceeds to set forth the rights and freedoms Chinese citizens enjoy.

---

[19] "Red Paper on the Violation of Human Rights in Communist China," *supra* note 5.

BEST COPY AVAILABLE

To show that China accords the people full protection of political freedoms such as the right to vote and be elected, the White Paper devotes a good deal of space to explaining the political system. For example, it says that the National People's Congress (NPC) is the supreme organ of state power. It does not mention, however, that the NPC takes orders from the CCP as to when it should convene, what is to be discussed, and so on. The NPC is merely a rubberstamp; everything is dictated by the CCP. Similarly, the White Paper says that the people's delegates at all levels will be democratically elected, but it fails to mention that every candidate is actually picked beforehand by the Party Committee. The most striking characteristic of China's electoral system, according to the White Paper, is that elections are not influenced by money, but it fails to mention the fact that if the results of an election are not acceptable to the Party Committee, the Party Committee can declare the election void. The White Paper emphasizes that the Chinese leadership is "the result of the historical choice made by the Chinese people," but it does not provide the answer to the question of whether, if one day the Party lost its mandate, the Chinese people would have the right to make another choice. Although the White Paper says that the Party's leadership is mainly ideological and political, it is in fact all-inclusive, covering matters large and small, and Party policy is ultimately more authoritative than formal law.

The White Paper says that all political parties enjoy the right of political freedom, organization, and independence. However, leadership of the Communist Party means Leninist-style one-party rule, which is one of the basic reasons why human rights are violated in China. This system of dictatorship has the following significant characteristics. 1) The Party is above the State Constitution, which, some argue, is used only to recognize the Party's supreme status and its policies. 2) Party organs are also above the executive, legislative, and judicial organs of the state. It is well known that in all branches of government, there are Party committees, so that in effect all the executive, legislative, and judicial powers are in the hands of the Party. 3) The armed forces are under the control of the Party. 4) The Party has a monopoly on personnel matters, and posts of certain officials above a certain level must be held by Party members. This is true of academic institutions and mass organizations as well. 5) Party policies, directives, and discipline not only bind the Party, but the masses outside the Party, and in fact have the binding force of law. Because the Party has supremacy, the Party chairman actually has absolute power.[20]

The White Paper claims that citizens have freedom of speech, the press, assembly, association, parade, and demonstration. For example, it states that there is no press censorship in China; that of all the newspapers and magazines, only one-fifth are publications of Party and government organs. This fails to account, however, for the closing of publications such as the liberal *World Economic Herald* (*Shijie jingji daobao*) in May 1989 because of its role in the pro-democracy movement and the fact that during the June 4th incident many reporters joined the demonstrations and held up banners stating "we should not be forced to tell lies." According to the former deputy chief editor of the *Herald*, Zhu Xingqing, there were hints that the publication could be revived provided two conditions were met: that it no longer be involved in politics and that the original senior editorial staff not be restored. Zhu noted that "As long as a publication is not dangerous to the communist regime, it will be allowed to exist."[21] Thus, some restrictions have been eased. In Central Committee Document No. 9 on goals and requirements of those involved in the areas of the media, Party propaganda, culture, and entertainment, issued before the 14th Party Congress, it is stated that news and cultural workers are not to be interfered with if they operate within the law and Constitution.[22] It says that writers and artists are to have creative freedom--as one senior editor noted, "for the first time since 1949, the party has not obliged writers and artists to propagate Marxist values"--but their works are not to challenge Party policies and the document warns against the spread of bourgeois-liberal ideas and peaceful evolution.[23]

---

[20] Cheng Hsiang, "Comments on the White Paper on Human Rights of Communist China," 8 *Dangdai* [Contemporary] (Nov. 15, 1991).

[21] *South China Morning Post* (Hong Kong, in English), Nov. 17, 1992, at 12, as carried in Foreign Broadcast Information Service, *Daily Report: China*, Nov. 17, 1992, at 15.

Despite the issuance of Document No. 9, moreover, other indications are that controls will be reinforced. According to the U.S. State Department report on human rights, "television and radio broadcasting and the press remain under party and government control and are used to propagate the currently acceptable ideological line."[24] A recent article in the Hong Kong press pointed out that an internal document aimed at controlling the political content of publications, which was drafted by the CCP Central Committee Propaganda Department and approved by the members of the CCP Central Committee Secretariat, was issued after the 14th Party Congress, apparently in early 1993, by CCP political-legal organs.[25] The document is entitled "Further Strengthen the Control of Printing and Publication of Books, Newspapers, and Magazines To Ensure That Their Political Quality Does Not Exceed the Limit." It made the following points:

- Local newspapers should not precede the central newspapers in Beijing in publishing propaganda, as newspapers in South China had mistakenly done by propagating Deng Xiaoping's ideas on reform expressed during his early 1992 trip to the south.

- The tools of propaganda must always be controlled by the Party.

- Any newspaper or journal that gives voice to bourgeois liberalization must immediately cease publication.

- Any newspaper or journal whose political content exceeds the proper limit must immediately cease publication. The central and local authorities should in principle stop the number of newspapers and journals that contain political discussion from increasing.

- Professional newspapers and journals are not allowed to carry any articles that discuss politics.

- Emulating magazines and newspapers printed in Hong Kong and Taiwan that publish exposes is not allowed.

---

[22] As reported in the *South China Morning Post*, Sept. 30, 1992, at 1, and carried in Nexis (Current File). This statement apparently echoes one made by Premier Li Peng in a speech delivered to cadres in Inner Mongolia in the summer of 1992.

[23] *Id.*

[24] Human Rights Report, at 545.

[25] Tien Chen, "Internal Document on Suppression of Freedom of the Press," *Cheng Ming* 42-44 (Hong Kong, in Chinese, Feb. 1, 1993).

BEST COPY AVAILABLE

- Book publishers must be on the alert not to publish anything that is "red on the outside and white on the inside," that is, whose ideology appears to be communist but in fact is not.

- Articles about Communist Party history are not allowed to vilify it.

- The leaking of state secrets in the media is not allowed.

- Tight control is to be exercised over religious publications.

In regard to the last point, in order to publish any religious publication, approval must first be obtained from the Religious Affairs Management Bureau of the State Council and the State Press and Publications Administration. Local organs are not allowed to give such approval. Local publishing houses are absolutely forbidden to accept private deals to reprint or reproduce religious publications such as the Bible or the Koran. If a local press is found to have done these things, the local press control organ, working together with the tax organs and other units controlling industry and commerce, must use existing relevant administrative laws and regulations to fine the offending press in order to stop the religious publications from exerting a bad influence on people. The article also notes that the Party school has strengthened the training of censorship personnel. Thus, although it appears that there may be fewer restrictions in some areas of the press, e.g., on economic matters, when it comes to political or religious content, control is still being exerted.

Citizens are said to have the right of authorship and the right to decide what books to write, what point of view to have, and where to publish their work. As one commentator quipped, if it were true that people could use any point of view to write whatever they wanted, personnel of the Department of Propaganda of the Party Central Committee and the Party Bureau of Press and Publications and other related agencies that serve as thought police would be unemployed.[26] The State Department report on human rights states, "Freedom of speech and self-expression remain severely restricted, although there has been a slight easing of these limits."[27] Works by politically suspect authors have been banned, controversial films such as those by director Zhang Yimou were not allowed to be shown in China until the ban on them was lifted in August 1992, the scriptwriters of the television series "River Elegy," which took a critical view of Chinese civilization, had to flee the country, and television, radio, and the press remain under close party and government control. An anthology of articles by liberal intellectuals, *Trends of History*, published in April 1992 by People's University Press, was quickly banned in May 1992 (although about 30,000 copies were distributed by then). The editor of the book, a researcher in the law department of Beijing University, filed suit against the Party committee of People's University for imposing the ban. While administrative suits of this kind are becoming more common, the courts typically refuse to hear them and appeals are usually rejected.[28]

As for freedom to demonstrate, it was reported that of 1,175 applications made to hold rallies, demonstrations, marches, and petitionings during the period of 1990 to 1991, only 15 were conditionally approved. Of 37 politically sensitive applications submitted by scientific and academic units, 28 submitted by non-governmental organizations were all turned down. However, some of the demonstrations took place despite the failure to secure government authorization. During the same period, 523 unapproved rallies, etc., involving ten or more people occurred throughout the country.[29] Moreover, according to the "Report on the General Situation of Illegal Demonstrations, Assemblies, Strikes, and Commercial Strikes in Various Localities, Rural Areas, Industrial and Mining Enterprises, and Units in 1992" (published by the Ministry of Public Security in early February 1993), there were more than 540 illegal demonstrations and assemblies, and more than 489 strikes.[30] It must be kept in mind that there is no right to strike in China. Although the above statistics indicate that centralized controls may no longer be as effective as they were in earlier years, they also show that despite the existence of a formal law on demonstration, assembly, and parade, the government is still very reluctant to allow this form of freedom of expression.

---

[26] Cheng Hsiang, *supra* note 20.

[27] Human Rights Report, at 545.

[28] *See for example* "Dissident Sues Chinese Provincial Leader," Agence France Presse, Apr. 5, 1993 (Nexis, Currnt File).

The chapter on political rights also claims that citizens enjoy the right of their personal freedom not being infringed upon. It states that it is illegal to unlawfully arrest and detain people or use other means to restrict citizens' personal freedom. Illegal searches of the person are forbidden, it says, and citizens' personal dignity is not to be violated. However, such practices as the use of sheltering for examination and the detention of persons beyond the lawful time limits are clear indications that personal freedom is not respected.

The White Paper says that, under the Constitution, China implements a people's democratic dictatorship, which means the practice of democracy among the people and of dictatorship against the people's enemies. It is the Party leadership, however, that since 1949 has arbitrarily defined what constitutes "the people." Only the people can enjoy human rights; enemies of the people are non-people and are not to have the same rights, not even the protection of the right of existence. Since the founding of the PRC, such terms as "people," "nationals," and "citizens" have had different meanings. When "people" is used, it is a matter of enjoyment of rights; when "nationals" is used, it is a matter of carrying out obligations. The definition of "the people" changes in tune with the struggle between the leftists and the rightists. Those considered people today might be considered non-people tomorrow, because in different campaigns the targets are different. For instance, as was noted above, over the years the Chinese Communists have used various categories to label certain people, e.g., as elements of the five black categories, the seven black categories, the nine black categories, counterrevolutionary elements, revisionists, and capitalist roaders. Those labeled were given different kinds of punishment even though the same law was applied.

---

[29] According to an internal Ministry of Public Security document submitted to the State Council in mid-February 1992. *Cheng ming* (May 1 1992)(Hong Kong, in Chinese). Summarized in BBC, *Summary of World Broadcasts*, May 25, 1992, FE/1389/B2/1, as carried in NEXIS (Currnt File). The *Cheng Ming* article seeks to make the point that there is much instability in China's various social strata, belying the appearance of stability and unity the country projects.

[30] Lu Yen, "Statistics on Demonstration Cases in China in 1992," 185 *Cheng Ming* 19 (Hong Kong, in Chinese) (Mar. 1, 1993), as translated in FBIS, Mar. 10, 1993, at 14-15. The article also gives a breakdown of the number of demonstrations, etc., that occurred in particular provinces and in a few specific industries.

In the Criminal Code and the Code of Criminal Procedure, promulgated by the PRC in July 1979, there are several kinds of counterrevolutionary crimes, which are listed first before other crimes such as murder and manslaughter. Counterrevolutionary crimes may entail the death penalty. Many of the dissidents associated with the Tiananmen massacre were given more serious punishment because they were branded as counterrevolutionaries. Since counterrevolutionary elements are considered enemies of the people, they are targets of dictatorship; since, according to Communist theory, they are not part of the people, they cannot be considered as political criminals.

It is on the basis of such logic that the White Paper on human rights states that China does not have any political prisoners. Thus, in the past, when Liu Shaoqi, Deng Xiaoping, and Peng Zhen were charged by the government with acting as agents of Soviet revisionism and "capitalist roaders," they were not considered as people; they were viewed as the people's enemies and were treated as targets of the people's dictatorship. Reportedly, on September 7, 1992, the Central Committee issued Central Document No. 7, which instructs that during the period of accelerating peaceful reform and opening up, public security and state security intelligence units at the provincial level must strengthen their efforts in supervising the activities of all revolutionary forces and students and must also keep strengthening suppression of the activities of "foreign spies and 'antirevolutionary elements.'"[31] A document like this can mean that a large number of innocent people will be treated as enemies of the people (but not be considered as political criminals) and be deprived of their human rights. Non-people, and even people or nationals, can be struggled against, brainwashed, forced to make confessions, given reform through labor treatment, sent to rural areas to be reeducated, or sent to remote areas of hardship. Thus, the Party has the final say in determining whether these non-people will be kept alive at a marginal level, treatment that in general does not meet international human rights standards.

Part of the way in which the Party exerted control in the past was through the use of campaigns to purge unacceptable elements. When these campaigns have been launched, people have been divided into certain categories for different treatment, and the human rights of those who fell into the undesirable categories were often violated (*as noted above; see also* below under political prisoners). How people would be classified--e.g., according to class or political views--was difficult to predict, because the basis for it was always different. Once a person was branded, it was hard for him to have his case overturned. Opportunities would be denied because of factors beyond his control, such as family background, and artificial social inequities were created that caused people to suffer unfair treatment, discrimination, or humiliation. Many found it difficult to accept their treatment; suicide and the commission of atrocities against parents were common. The unjust verdicts rendered over the years were clearly a violation of human rights, but the White Paper does not mention them at all.[32]

In communist ideology, collective human rights are above individual rights. The White Paper, on the basis of article 51 of the Constitution, states that citizens of the PRC, in exercising freedoms and rights, are not allowed to injure the lawful freedom and rights of the state, society, the collective, or other citizens. While it can be argued that certain interests of the state, society, and collectivity should be valued, there is no clear definition provided of what the state, society, and collective interests are, leaving it to the authorities to interpret. Thus, any human rights conferred by the Chinese Communists would have to be delimited by the "four cardinal principles" delineated in the preface to the Constitution--adherence to the socialist road, to the dictatorship of the proletariat, to the leadership of the Chinese Communist Party, and to Marxism, Leninism, and Mao Zedong thought.

---

[31] Reported in Kyodo News Service (in English), Oct. 15, 1992, as carried in FBIS, Oct. 15, 1992, at 21. The document also calls for strengthening intelligence work overseas, with an emphasis on gathering economic, scientific, and technological information.

[32] Cheng Hsiang, *supra* note 20.

Chapter 3. Chapter 3 of the White Paper says that China's 1.1 billion people are well-fed and clothed, that their livelihood is guaranteed, and so they already enjoy the basic right of subsistence. In addition to that right and the civic and political rights mentioned in Chapter 2, the people also are said to enjoy economic, cultural, and social rights.

Citing the Constitution, the White Paper says that citizens have the right and the duty to work. It claims that the government has taken all sorts of measures to solve the problem of unemployment. At the same time, however, it admits that since 1985, the unemployment rate (the euphemism "rate of waiting to be employed" is actually used) in urban areas has remained at 2.5%. While this rate seems low, it still constitutes tens of millions of people. Nor does this government figure include the millions who make up the "blind flow" of workers who roam from place to place, but especially from the rural to the coastal areas, seeking employment. Citizens demand the basic right to work, but the employment problems on the mainland have not really been solved. Moreover, because generally speaking there are no unemployment benefits, being without work means that the average worker has no way to support himself.[33]

The White Paper, again citing the Constitution, says that the legitimate property of citizens will be protected by law, and that organizations and individuals are forbidden to infringe on this right by occupying, seizing, dividing, destroying, or confiscating such property. It has been reported, however, that the illegal takeover of private property is common and that the majority of those who ignore the law and take possession of other people's private property are Party functionaries.[34]

The White Paper provides a series of figures to show that Chinese citizens enjoy the right of education. However, the fourth general census taken at the end of last year revealed, as the government itself admits, that the illiterate and semi-illiterate totalled 180 million adults, one-sixth of China's population. The White Paper also devotes a couple of paragraphs to students studying abroad. Noting that the number has been rapidly increasing and pointing out that it has increased even after the "political incident of 1989," the White Paper nevertheless acknowledges, albeit indirectly, that only one-third of the students abroad (about 50,000) have returned to China; more than 100,000 remain overseas, despite the government's efforts to lure them back with various kinds of incentives.[35] It goes on to say that "According to international norm, Chinese students who are sponsored by the government to study abroad have the duty to return to serve their home country" and describes the steps the government has taken to arrange suitable jobs for them. In order to encourage these valuable citizens to return home, in mid-August 1992 the General Office of the State Council issued a circular which says that

---

[33] "Red Paper on the Violation of Human Rights in Communist China," *supra* note 5. The situation for those viewed as dissidents can be especially grave. For example, a prominent journalist, Dai Qing, under newspaper rules, had to sign a document of resignation from her post before being allowed to study abroad, but she did not realize that it was permanent until she returned home and her newspaper refused to reinstate her, most likely, according to Dai, for political reasons. Dai criticized the authorities, noting that "the Chinese government's 'white paper' on human rights states that the right to exist and the right to work are the most basic of human rights." Hong Kong AFP, in English, Feb. 15, 1993, as carried in FBIS, Feb. 16, 1993, at 17.

[34] *Id.*

> all students studying abroad, regardless of their previous political attitude, are welcome to return home for a family visit or vacation, as well as for short-term academic exchange and cooperation. All the wrongful things they have said and done abroad will be forgiven. Even students who have joined anti-Chinese Government organizations, or who have engaged in activities which jeopardize China's security, disgrace the country, and undermine its interests are welcome to return home to work as long as they withdraw from these organizations and discontinue their anti-government activities which run counter to the Chinese constitution and laws.[36]

This circular, which indicates that anti-government activities, if abandoned, will not be punished, clearly runs counter to the Criminal Code, which says that the Criminal Code will be applied to citizens of the PRC who commit outside the territory of the PRC the crime of counterrevolution, among others (art. 4). A counterrevolutionary act is vaguely defined in the Criminal Code as any act that is committed with the aim of overthrowing the Communist regime and that endangers the PRC (art. 90). The above-mentioned "activities which jeopardize China's security, disgrace the country, and undermine its interests" would unquestionably be categorized as counterrevolutionary acts. Moreover, the circular offers a pardon to students who have engaged in such activities, but pardons are not within the power of the issuing body--the State Council and its head, Li Peng--to give; that duty falls to the Standing Committee of the National People's Congress and the President of the PRC.

According to the White Paper, Chinese citizens enjoy freedom of scientific research and literary and artistic creation. Most of the space on this topic is devoted to a description of the expansion of the number of jobs in the scientific field and the achievements made in research; nothing is really said about freedom of scientific and artistic thought. As was noted above under section 1, despite some easing of restrictions and official pronouncements that political control of artistic works should be loosened, tight controls remain in place.

The White Paper says that the state emphasizes and protects women's right to freedom of choice in marriage and forbids buying or selling women for marriage, arranged marriages, and any other acts that interfere with freedom of marriage. It neglects to point out that although these activities are forbidden and despite government campaigns to eradicate them, the buying and selling of women for marriage or prostitution is a common phenomenon.[37] The White Paper also claims that it is forbidden to maltreat and sell children and to use child labor. Child labor is, however, common and many rural children are withdrawn from school and put to work, jeopardizing their right to education.

---

[35] According to some reports, many people want to leave China, including the children of the leaders and founders of the PRC. Middle-level cadres will abuse their authority to accept bribes from foreign businessmen in return for getting their children out of China and to provide for the care of their children abroad at the expense of the state; lower-level cadres and ordinary people also work very hard to go overseas. Cheng Hsiang, *supra* note 20.

[36] For the contents, *see* Xinhua (Beijing, in Chinese), Aug. 20, 1992, as translated in FBIS, Aug. 21, 1992, at 10.

At the end of the section on economic, cultural, and social rights, the White Paper does acknowledge that China is still a developing country marked by backward economic and cultural development and that "much remains to be done to further expand the people's economic, cultural, and social rights." Unfortunately, it does not make any attempt to temper the claims made throughout the section with a more realistic depiction of the actual status of enjoyment of those rights in the PRC. Moreover, a right that had been granted under the 1954 Constitution of the PRC--freedom of residence and to change residence[38]--is not granted under the currently effective 1982 Constitution, even as amended on March 29, 1993. Nor do Chinese workers enjoy the right to strike, which is an irony in a country that is supposedly ruled by the working class.

Chapter 4. Chapter 4 of the White Paper lists under seven sections the ways in which the judicial organs guarantee citizens' rights. By way of introduction, it says that three main principles are observed: 1) citizens are equal in regard to the applicability of the law; 2) the public security and judicial organs will base themselves on facts and regard the law as the criterion in conducting cases; and 3) the procuratorate and the court will exercise their authority independently and will not be interfered with. If this last item were taken literally, it would mean that China had abandoned the cardinal principle of Communist Party leadership. Moreover, if there actually were no interference from administrative organs, social groups, and individuals, the four cardinal principles could not be implemented.

Lack of judicial independence in China has two major aspects. First, sometimes the court conducts the trial, but a decision on the case is then made by the Party political-legal committee at the corresponding level. Second, especially for important cases, a decision is made in advance by the political-legal committee and the trial is conducted purely for show. This means that there is not only regular administrative review of cases but also Party review and/or decision-making. Sometimes, moreover, non-judicial organs have interpreted regulations. For example, in one recent lawsuit, the higher court of Zhejiang Province was not able to render a decision on the case; it had to ask the public security organ to interpret certain laws and a final decision was made in accordance with the public security organ's interpretation. However, the defendant in the case was a subordinate organ of the Public Security Ministry. This shows that judicial independence cannot be carried out--in lawsuits in which a public security organ is a party, it is unlikely that the public security organ would ever lose the case.

The subsections of this chapter of the White Paper will be examined in turn, as follows.

1) Citing the Constitution, the White Paper says that illegal detention and depriving people of or limiting their personal freedom in other illegal ways are prohibited. The law states that no citizen can be arrested unless the public security organ (the police) has first obtained permission from either a court

---

[37] *See for example* Hong Kong AFP in English, Mar. 5, 1992, as carried in FBIS, Mar. 6, 1992, at 26.

[38] Art. 90, Constitution of 1954. For a translation, *see* A. Blaustein, *ed.*, *Fundamental Legal Documents of Communist China* 1-33 (South Hackensack, N.J., Fred B. Rothman & Co., 1962).

BEST COPY AVAILABLE

or a procuratorate. In reality, the police use various means of extra-judicial detention to take people into custody (*see above*, pp. 8-9).

2) Illegal search of a citizen's person or residence is not permitted under the Constitution and the use of corporal punishment to extort confessions is "strictly prohibited," according to the White Paper. However, the State Department report on human rights says that "Both Chinese sources and human rights groups reported many instances of torture. Persons detained pending trial were particularly at risk, reflecting the emphasis on obtaining confessions as a basis for convictions."[39] The report mentions such practices as making suspects kneel on broken glass, administering jolts of electric current, tightly binding suspects for long periods, and the use of cattle prods, beatings, shackles, and long periods of solitary confinement, among others. The report notes that in April of 1992 officials publicly admitted that torture by the police was a serious problem and the procuracy called for tougher penalties.

3) The White Paper says that the courts practice a public trial system, except for cases involving state secrets or the need for privacy, that people are allowed to attend trials, and that the accused has the right to a defense and the rights of appeal and petition. In the cases of the June 4, 1989, dissidents, however, most of the trials were conducted secretly, relatives and friends and members of the foreign press were often denied access, and the process of granting the accused the right of appeal and petition was merely a formality. Pressure was put on lawyers not to defend the accused or not to represent their cases on appeal. In addition, the number of years of imprisonment prescribed for the defendants was already pre-determined by the Party committee; the court only rendered a decision in accordance with the Party committee's instructions. It should also be kept in mind that in the Chinese legal system, there is no presumption of innocence. As the State Department report on human rights notes, "despite official denials, trials are essentially sentencing hearings" and "Conviction rates average over 99 percent."[40] It states that the 1992 trials of Bao Tong, a former chief aide to Zhao Ziyang, and two of Bao's associates, Gao Shan and Wu Jiaxiang, "were actually characterized by predetermined verdicts, effective denial of defense, and exclusion of independent observers," despite the government's assertions of their fairness.[41]

The White Paper boasts of China's system of the two-year suspended death sentence as "an original creation in the application of capital punishment." This is not much of an achievement in view of the abuse of rights that characterizes the Chinese criminal justice system as a whole. If it is the only measure that China can point to with pride, it only serves to point up the fact that improvement is lacking in other areas, most notably, the imprisonment of dissidents without trial and the use of other illegal means to suppress opposition.

4) The White Paper emphatically states, in the section entitled "China has no 'political prisoners'" that there are no political prisoners in China: "In China, ideas alone, in the absence of action which violates the criminal law, do not constitute a crime; nobody will be sentenced to punishment

---

[39] Human Rights Report, at 540-541.

[40] *Id.* at 543.

[41] *Id.* at 544.

merely because he holds dissenting political views. So-called political prisoners do not exist in China."[42] However, the expression of views has been seen as criminal action. The various campaigns launched by the authorities in the PRC during the last forty years--anti-rightist, anti-corruption, anti-bourgeois liberalization, and so on--have basically all involved the punishment of people for holding different political views. Such persons have been regarded not merely as having a different opinion, but as being "counterrevolutionary," that is, anti-Party, anti-socialist, and subversive.[43] It was on the basis of this kind of logic that most of the people who participated in the June 4 demonstration were later sentenced. Persons accused of counterrevolutionary crimes can be denied a public trial under the Law on State Secrets. In some cases they may not be handled through the formal judicial process at all, but will be sent for reeducation through labor by the public security organs without any trial. Moreover, persons labeled as class enemies or as one of the "five black classes" will encounter all kinds of pressure, including political, economic, social, physical, and spiritual. To say China does not have political prisoners is a matter of semantics; just because they are not openly described as political prisoners does not mean they do not exist.

5) In the section on "Prison Work and Criminals' Rights," the White Paper says that at present in China there are 680 prisons and reform-through-labor institutions holding 1.1 million inmates. Instead of focusing on the absolute figure of the prison population as a basis for comparison, it boasts that the 1990 rate of imprisonment of 0.99 per thousand of the total population (more than one billion people, one-fourth of the world's population) and crime rate of 0.6 per thousand contrasts very favorably with the rates of Western countries. The White Paper claims that the majority of convicts are allowed to serve their terms in places where they reside so that relatives can visit and the original work unit will be able to help educate them. It goes on to state that "The allegation that in China some citizens are sent to labor camps without trial or sent away in some form of exile within the country is a distortion of the system whereby prisons and reform-through-labor institutions in China take criminals into custody; it is a groundless fabrication." It fails to mention that sometimes reeducation-through-labor institutions, to which people are sent without trial, and reform-through-labor camps overlap. Moreover, after finishing their sentences, convicts are sometimes compelled to stay on to work at the labor camps or to work nearby because their original household registration has been cancelled, so that they are consigned to a form of internal exile.

6) Under the section on prison labor, the White Paper extols the benefits of physical labor, briefly describes the nature of the work, and addresses the issue of prison labor products. It states that "The export of prison products is prohibited. China's foreign trade departments...have never granted

---

[42] This view was reiterated by the Minister of Justice, in an interview that took place on March 14, 1993. The Minister said that China has 1.2 million prisoners and 180,000 persons undergoing reeducation through labor. He denied allegations that there are political prisoners in China and said that not believing in Marxist-Leninist ideology was not deemed a violation of law. However, he said that "'counterrevolutionary' acts aimed at subverting the government, splitting the motherland, and overthrowing the socialist system will be punished by law." He contended that the number of counterrevolutionary offenders is very limited and that the figures put out by Western human rights organizations are "exaggerated," but he provided no figures about the number of such offenders. "Justice Minister Cai Cheng Says It Is Possible To Release Pro-Democracy Activists Ahead of Time," *Ming Pao* (Hong Kong, in Chinese), Mar. 15, 1993, as translated in FBIS, Mar. 17, 1993, at 37-38.

[43] "Red Paper on the Violation of Human Rights in Communist China," *supra* note 5.

foreign trade rights to reform-through-labor institutions." This baldly contradicts the fact that, at least in the recent past, China's export of prison products has aroused protest from other countries, particularly the U.S. In August 1992, the U.S. and China signed a memorandum of understanding on prohibiting import and export trade in prison labor products; since then, Chinese publications have been more reticent about the export of reform-through-labor goods. China has not consented to inspections, however. Before and even during the uproar, Chinese publications themselves boasted about the foreign exchange earned as a result of the export of prison products. A 1987 government publication, *The Theory and Practice of Labor Reform of Criminals*, comments on the pride taken by the authorities in the "tremendous achievements" made in exporting prison-made goods and states that some of the labor reform units enjoy "dominant market positions" in the international sales of some of their products. The book names several of the labor camp production facilities and their products. At that time, about 80 different categories of goods were being exported. According to the *Law Year Book of China 1989*, an official PRC publication whose editorial board includes several high-ranking Chinese officials (e.g., the Deputy-Secretary General of the Standing Committee of the National People's Congress, the Deputy Minister of Justice, and so on), "The labor reform units have made great progress in terms of an export-oriented economy. The value of products for export of labor reform enterprises in 1988, compared to the previous year, increased 21 percent and the foreign exchange earned increased 42 percent." The *Year Book* also noted that three labor reform industries had been designated as export bases and thirteen had been named expanded industrial enterprises for export products.

7) The White Paper states that education through labor (i.e., reeducation and rehabilitation through labor) is not a criminal but an administrative punishment. It claims that "The decision to put a person under education-through-labor is made through a strict legal procedure and under a system of legal supervision...." While certain procedures may be followed once a person is detained, these are not legal, nor is the punishment itself. The assignment of minor offenders or those deemed counterrevolutionaries to the reeducation-through-labor camps is an extrajudicial process, which, as the State Department report on human rights says, "allows security authorities to deal with political and other offenders without reference to even the nominal procedures and protections the formal criminal process offers."[44]

Chapter 5. Chapter 5 of the White Paper uses various figures to show that people in China enjoy the right to work and that that right is protected by law. The PRC is supposedly a state based on an alliance of workers and peasants and led by the working class, but in reality the workers and peasants only have the right to sell their physical labor and they do not, as the Chinese Communist Party claims, lead everything. During the past forty-some years, workers and peasants struggled to keep themselves fed and clothed, especially during disastrous campaigns to harness their efforts such as the Great Leap Forward, and the wealth they created was largely taken away by the state. The White Paper claims that "Chinese workers are the masters of their enterprises" and that "there is no conflict of fundamental interests between the managers and the workers." However, as was noted above, workers do not have the right to strike in China. After the Tiananmen massacre, moreover, workers who were found to have participated in the pro-democracy demonstrations were among those most severely punished.

Chapter 6. Citing the Constitution, the White Paper says that citizens have freedom of religious belief and that the state protects normal religious activities and the interests of religious circles, but that religious freedom entails certain obligations as well, e.g., the obligation not to engage in activities that disrupt public order or impair the mental or physical health of other citizens. Chinese religious organizations are to abide by principles of independence and self-sufficiency and to oppose outside control or interference in domestic religious activities. Thus, while freedom of religion and to worship are granted, the State can readily use the pretext that religion is being used to fool people in order to oppose religious activities. According to the State Department's report on human rights, in 1991 repression of religion tightened with the publication of a Party document calling for tighter control over religious practice, but the situation grew more complicated in 1992 when reforms were emphasized that would give government-approved religious leaders the opportunity to speak out against "leftist" abuses.[45] Proselytizing is monitored and restricted and religious affairs bureaus, run largely by Party members, control religion. Religious observances were suppressed during the Cultural Revolution and many places of worship were damaged or destroyed. Although in recent years the government has eased suppression of religion and has restored or replaced the sites of worship, it is very sensitive to religious activities, particularly in Tibet. Tibetan Buddhism is tightly controlled, no expressions in favor of Tibetan independence are tolerated, and religious education is restricted, even though the Chinese government is funding the reconstruction of the religion's main sacred sites. The government is also nervous about religious-political activities in Xinjiang, Qinghai, and Ningxia provinces, which have large Muslim populations. A 1988 law on religion imposes restrictions on the building of mosques and on religious education of youths. In 1990, religious activities were further restricted due to unrest in Xinjiang. According to the State Department human rights report, Fan Xueyan, an elderly Catholic Bishop, died in April 1992 while in custody in Hebei and reports circulated that he may have been beaten to death. Another bishop died around the same time shortly after his release from detention. Moreover, "Many bishops, priests, and lay people remained in detention or 'reeducation'" during 1992.[46]

---

[44] Human Rights Report, at 543.

Chapter 7. The White Paper says that the state protects the lawful rights and interests of the minority nationalities and prohibits any discrimination against or oppression of any nationality. It also states that the minority nationalities enjoy not only all the civil rights set down in the Constitution and other laws but also some special rights accorded them by law. Most of the section on minority nationalities, however, deals with what the government has done for them in terms of socio-economic programs, not human rights. The White Paper does not address the issue of gradual assimilation of minorities by the Han majority as a state policy in China. Although other ethnic groups have already been assimilated by the Han, there are still 55 minority ethnic groups in China. Some contend that under the Chinese Communists, efforts have been made to accelerate assimilation, so that in Mongolia, Xinjiang, and Tibet, the demarcation line between the minorities and the Han has been increasingly obliterated. While the Chinese Communists maintain that this reflects the success of their minority policy, the critics argue that this assimilation policy has violated the minorities' basic human right, that is, the right of subsistence.[47]

Chapter 8. In its section on family planning, the White Paper presents the rationale behind the need for birth control, describes its successes, and sets forth the elements of China's birth control program. It notes that China now has more than 1.14 billion people and each year that number increases by 17 million people, so that if China failed to practice birth control, it would spell disaster not only for China but for the world. Human rights advocates in the West agree to some extent that the compulsory one-child policy adopted by the PRC is necessary. Nevertheless, despite the need for China to control its population, one could argue that planned birth constitutes a violation of the right of subsistence. It becomes especially problematic where implementation of the one-child policy has made it a commonplace for infants, especially baby girls, to be killed by drowning and for forced abortions to occur. The White Paper does acknowledge that infanticide is a problem even though it is forbidden by law.

---

[45] Human Rights Report, at 546.

[46] *Id.* at 547.

[47] "Red Paper on the Violation of Human Rights in Communist China, *supra* note 5.

Chapter 9. The White Paper says that there are about 51 million disabled people in China. It states that the government has worked out specific policies and regulations to protect the rights and interests of the disabled, including laws that prohibit their ill-treatment and abandonment, and that steps have been taken to ensure their rehabilitation, education, employment, cultural life, welfare, and good environment. Some question the extent of help that the disabled receive, contending that many have been abandoned by society and their families and have become beggars.[48]

Chapter 10. Chapter 10 of the White Paper enumerates the international human rights activities the PRC has participated in and the international conventions China has joined. It is because China does not fully participate in the international community, however, that it still insists that sovereignty is above human rights, that "human rights are essentially matters within the domestic jurisdiction of a country," and that "China has firmly opposed... any country interfering in the internal affairs of other countries on the pretext of human rights." If such fundamental concepts are not changed, the PRC will not be able to improve its human rights situation and meet international standards, even under the supervision of the international community.

SOME STATEMENTS BY CHINESE LEADERS ON HUMAN RIGHTS

Jiang Zemin, General Secretary of the Central Committee of the CCP, Chairman of the CCP Military Commission, and now also President of China, has said that "On the question of human rights, our stance is quite open. Our social system, values, ideology, history, and tradition are different from those of other countries, so we have a different concept of human rights than other countries."[49] In an interview in late February 1993 with Mortimer Zuckerman of *U.S. News and World Report*, reiterated this point, and stated that "There is no one who is more concerned about the state of human rights in China than we ourselves are." Jiang commented that there are fundamental guarantees for various rights in the Chinese Constitution and that China has joined international conventions on human rights. He took a conciliatory position on the matter of discussing human rights issues: "[China] supports dialogues on the human rights issue between countries on an equal footing. Through an equal and sober dialogue, mutual understanding can be enhanced. As for problems that, for the time being, cannot be resolved, the two sides can still seek common ground while reserving differences." In regard to the matter of settling disputes over human rights conditions, however, his remarks reflected the familiar Chinese line of non-interference in domestic affairs: "We favor dialogue and oppose the use of pressure in resolving differences in the U.S. and Chinese concepts of human rights. We disapprove of exploiting the human rights issue in an effort to interfere in other countries' internal affairs. It would be undesirable and futile to exert pressure on China." Despite the last sentence, it has been shown that exerting certain kinds of pressure on China does produce results; even the kinds of statements made above might not have appeared had the West not been pushing China to improve its human rights record.

---

[48] *Id.*

[49] Shi Liuzi, "The Hush-Hush Human Rights Observer Delegation," *Dangdai* [The Contemporary] 30 (Nov. 15, 1991)

In a press conference held in April 1989, State Council Premier Li Peng stated that China has always emphasized the question of human rights, and that since the end of the Cultural Revolution, human rights have been protected so citizens can enjoy them. He did admit, however, that there was room for improvement: "If people are dissatisfied with certain aspects of the enjoyment of human rights in China, we can still improve."[50] He said that human rights is an abstract concept that must be carried out through the laws of the state and emphatically stated that China definitely would not permit the use of human rights by foreigners as a pretext to interfere in China's domestic affairs. In a talk with Gorbachev held in mid-May 1989, Li Peng stated that China "does not consider freedom, democracy, and human rights to be a monopoly of capitalist nations. Socialist countries must also be countries with freedom, democracy, and full enjoyment of human rights. China is prepared to further perfect these aspects in political reforms."[51] More recently, Li Peng publicly stated that "we are not afraid of discussing human rights with others."

The Vice Premier of the State Council, Zhu Rongji, has also advocated addressing human rights issues. While on a visit to the U.S. when he was mayor of Shanghai, he openly stated that he was willing to invite Americans to come to Shanghai to discuss human rights issues. Zhu said that China must have its own human rights standard and was in favor of organizing a group of experts and scholars to study the scope and nature of human rights in Western countries. He said that even in Western countries, human rights criteria as well as laws differ from each other, not to mention the fact that there are some provisions in U.N. documents to the effect that each country may enact its own human rights laws. Since China is a developing country in the process of carrying out reforms, Zhu contends, its human rights are also developing and so Westerners should not be too harsh on China.[52]

CONCLUSION

The White Paper on Human Rights issued by the People's Republic of China is a highly inaccurate picture of the human rights situation in that country. Moreover, the claims it makes about the various rights enjoyed by Chinese citizens are undermined throughout by the fact that the political-legal system on the basis of which it makes those claims has serious flaws. To name but a few, there is no judicial independence in China nor any real concept of the rule of law. The country's leaders have very little knowledge of the law and even those in charge of the judicial organs lack legal education. The Criminal Code, especially the part on counterrevolutionary crime, is vague and under attack even in

---

[50] *Shijie renquan yuefa zonglan* [World Documents of Human Rights] Introductory Quotations, 2 (Chengdu, Sichuan People's Press, 1991).

[51] *World Documents of Human Rights*, *supra* note 50, at 3.

[52] Shi Liuzi, *supra* note 49.

Chinese legal circles. The Constitution sets forth a wide variety of rights and freedoms, but thus far the Standing Committee of the National People's Congress, which has the power to interpret the Constitution, has not made a single interpretation. On the contrary, it has adopted laws that restrict or take those freedoms away. If China wants to improve, these are some of the things it must change; the release of a few prominent political prisoners does not alter the basic picture. Chinese legal scholars themselves have argued that the system of reeducation through labor and of sheltering for examination, for which there are no formal laws, should change and that counterrevolutionary crimes should be done away with or converted to crimes of sedition or the like. Even government and Communist Party leaders and the recently convened 14th Party Congress have indicated that the legal system should be strengthened. Unless the system of Leninist-style one-party rule changes, however, the human rights situation will probably not alter very much.

It is because of Western pressure that China has had to address the issue of human rights in the PRC. Despite the superficiality of the White Paper, the fact that it was released shows that the leaders of the PRC are sensitive to criticism. Although Chinese leaders still use the claim of sovereignty and non-interference in domestic affairs to fend off this criticism, there is nevertheless a trend towards relaxation of their previous stance. Moreover, the National People's Congress has recently revised the Constitution to include opening up to the outside world as what might be considered a fifth cardinal principle. If the PRC does want to further economic reform, it will need to do business with Western democracies, especially the U.S. This means that the U.S. can definitely use foreign trade as leverage to encourage China to accelerate improvement of human rights.

The President *(interpretation from French)*: I now call on the Deputy Prime Minister and Minister for Foreign Affairs of China, His Excellency Mr. Qian Qichen.

Mr. Qian Qichen (China) *(interpretation from Chinese)*: At the outset, I should like warmly to congratulate you, Sir, on your election to the presidency of the current session of the General Assembly. I am convinced that given your outstanding talent and consummate experience, you will fulfil this lofty mission with distinction. At the same time, I should like to express my appreciation and thanks to Mr. Samuel Insanally for the positive contribution he made during his presidency at the last session.

I wish to avail myself of this opportunity to extend a hearty welcome and congratulations to the delegation of South Africa, which is taking part in the work of the current session. We are convinced that a united, democratic and non-racial new South Africa led by President Nelson Mandela will contribute positively to the peace and development of Africa and of the world as a whole.

The world is still undergoing profound changes, and the transition toward multipolarity has accelerated. Economic factors are playing a greater role in international relations. Relaxation of tensions has become the main trend of the world today. However, hegemonism and power politics continue to hold out. Regional hot spots flare up intermittently. Destabilizing factors tend to multiply, thus compounding the volatility of the international scene. The maintenance of peace, strengthening of cooperation and promotion of development remain the major challenges of our era.

To eliminate regional hot spots and settle international disputes are the world's priorities and the common concern with which the international community has been trying to deal in one way or another. Experience has shown that such practices as interfering in other countries' internal affairs and resorting to pressure, sanctions or even force at will cannot help; they can only increase the complications and difficulties that stand in the way of a final solution. In the interest of maintaining regional peace and stability, the international community and regional organizations should take an appropriate and effective approach, that is, to promote dialogue and negotiations between parties directly concerned so as to reach a solution acceptable to all sides. This has been best illustrated by the breakthrough achieved in the Middle East peace process and by the progress made on the Korean nuclear issue.

United Nations peace-keeping operations can play a positive role, but not all of them have been successful. Experience and lessons learned in this regard should be summed up. It is our consistent view that peace-keeping operations should strictly conform to the principles of the United Nations Charter and the norms of international relations. Such operations should be undertaken with the consent and cooperation of the parties concerned, and an impartial and unbiased attitude should be maintained. No peace-keeping operations or humanitarian aid programmes should be permitted to interfere in the internal affairs of any country, still less to use force or become embroiled in a conflict between the parties. A lesson should be drawn from what befell the United Nations peace-keeping forces in Somalia.

Here I wish to underline the importance of strict adherence to the Five Principles of Peaceful Coexistence

Reprinted from Official Record. United Nations General Assembly. 49th Session, 8th Meeting, Sept. 28, 1994. (A/49/PV.8) p.9-12.

as the basic means to prevent international conflicts. These principles, namely, mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence, were jointly initiated four decades ago by China, India and Myanmar - called "Burma" at the time - and were subsequently embodied in the 10 principles formulated by Asian and African countries at the Bandung Conference and in the purposes and principles espoused by the Association of South-East Asian Nations and other regional organizations of the developing countries.

The history of the past four decades has testified to the immense vitality of the Five Principles. All nations, notwithstanding their differences in social systems, ideologies, values or religious faiths, can live in amity and carry out mutually beneficial cooperation as long as they abide by these principles. Failure to do so will lead to friction, confrontation or even military conflicts. In a world as diversified as ours, nations have no alternative but to adhere to the Five Principles of Peaceful Coexistence and to find common ground while shelving their differences in order to live together amicably and pursue common development.

The peoples of the world have long lived in the shadow of a nuclear holocaust, due to the all-out nuclear arms race between the two super-Powers during the cold war, which resulted in a massive stockpiling of nuclear weapons. Now the international situation has drastically changed. Not only can we avert another world war, but the chances have increased for the complete prohibition and thorough elimination of nuclear weapons and for mankind ultimately to eliminate the threat of a nuclear war.

China has always stood for the complete prohibition and thorough elimination of all weapons of mass destruction. The Chinese Government holds that a convention on the complete prohibition of nuclear weapons should be concluded in the same way as the conventions banning all biological and chemical weapons, respectively. As a signatory to the Treaty on the Non-Proliferation of Nuclear Weapons, China is in favour of its extension. Yet a mere extension of the Treaty is obviously not sufficient. With a view to ultimately ridding mankind of the threat of a nuclear war and ushering in a nuclear-weapon-free world, the Chinese Government proposes the following.

All countries that possess nuclear weapons should pledge unconditionally not to be the first to use them and should immediately start negotiations to conclude a treaty on non-first-use of nuclear weapons against each other; efforts for the establishment of nuclear-free zones should be supported and all nuclear Powers should undertake not to use or to threaten to use nuclear weapons against any non-nuclear-weapon State or nuclear-free zone; negotiations should be undertaken with a view to concluding a comprehensive nuclear-test-ban treaty not later than 1996; the principal nuclear Powers should implement their existing nuclear disarmament treaties as scheduled and go on to drastically cut back their nuclear stockpiles; negotiations should be undertaken to conclude a convention banning the production of weapon-grade fissile materials; a convention on the complete prohibition of nuclear weapons should be signed under which all nuclear Powers should undertake the obligation to destroy all their nuclear weapons under effective international supervision; and international cooperation in the peaceful use of nuclear energy should be vigorously promoted simultaneously with the efforts to prevent the proliferation of nuclear weapons and step up the nuclear disarmament process.

The above points make up an integrated and interrelated nuclear disarmament process. We hold that all States, whether they possess nuclear weapons or not, are entitled to participate fully in this process.

Since mankind has been able to make nuclear weapons and tap nuclear energy for peaceful purposes in the twentieth century, we are confident that in the twenty-first century it will be able to completely ban and destroy nuclear weapons and fully harness nuclear energy to enhance its own welfare. Before the advent of the new century, we stand ready to join the other nuclear as well as non-nuclear States to blaze the way towards this lofty goal and make our due contribution to its ultimate realization.

It is now an international trend to give priority to economic problems. Hence all countries are devoting themselves to economic development and the expansion of international cooperation. This year the world economy has started a recovery and East Asia continues to maintain a high growth rate. But there is unevenness in the world as a whole. It is disturbing to note that the impoverishment of some developing countries has worsened. In the interest of common development, we call for the abolition of protectionism and of discrimination in international economic relations and trade. Neither global multilateral trade arrangements nor regional economic and trade cooperation should be exclusive. The principles of openness, equality and mutual benefit should be upheld. The World Trade Organization, to be founded next year, should from the outset be a broadly representative and open trade institution based on equality and mutual benefit.

The world economy is an interdependent whole. Developed countries should make more tangible contributions to global economic development and the expansion of international economic cooperation. Primarily they should take effective measures to open their markets, provide development funds, transfer technology and increase assistance to the developing countries to reduce their debt burden, thereby contributing to their economic growth, social stability and relief from poverty. Such actions will in turn bolster the economic growth of the developed countries themselves.

The international community and the United Nations should be more concerned with development matters and in particular should actively help the developing countries to achieve prosperity. We appreciate the Secretary-General's efforts in submitting the Agenda for Development pursuant to General Assembly resolutions. We hope that our deliberations thereon will serve to reinvigorate world economic development and international cooperation.

The Chinese Government considers economic development the central task of the whole nation and makes reform and opening its basic state policy. This year we have taken a new series of major steps to intensify the reform and opening which have the effect of ensuring sustained, rapid and healthy economic growth. Gross domestic product, foreign trade volume and overseas investments registered increases in the first six months of 11.6 per cent, 25.5 per cent and 54.9 per cent respectively, compared with the corresponding period last year. We will step up our all-directional opening-up and continue to work for world prosperity. We have been striving for an early resumption of our contracting party status in the General Agreement on Tariffs and Trade. A solution to this matter will be in the interest of both China and the world as a whole. China needs to cooperate with the rest of the world which in turn needs such an important trading partner as China. A World Trade Organization without China would be inconceivable.

Human society continues to move forward and make progress. But social ills still stand out starkly such as poverty, unemployment, the deteriorating environment, the population explosion, refugees, illegal immigration, drug trafficking, crime and injurious and unfair treatment of social groups such as women, children and the disabled. Some of these problems have become even more acute, and have cried out for a remedy by the world community through international cooperation. We consider that it is necessary to step up such cooperation. Because conditions vary, different countries face different social problems. Each country has to draw up social development policies adaptable to its own conditions. International cooperation in this field should adhere to the principles of mutual respect, equality and mutual benefit without political strings or interference in domestic affairs. Developing countries account for the majority of the world's population and are in a disadvantaged position socially. This is where the emphasis of the United Nations social programmes should be placed.

In recent years we have actively supported and participated in important international conferences on the environment, human rights and population under the auspices of the United Nations. We will actively take part in the World Summit for Social Development, to be held in Copenhagen next March. The Chinese Government attaches great importance to the Fourth World Conference on Women, to be held in Beijing in September 1995. The Chinese people, our women folk in particular, are preparing for and looking forward to this grand event with tremendous enthusiasm.

In response to the call in the documents of the 1992 United Nations Conference on Environment and Development, the Chinese Government has analysed the actual conditions in the country and drawn up "Agenda 21 - White Paper on China's Population, Environment and Development in the 21st Century", which will be an important guide in the formulation of our medium- and long-term national, economic and social development plans.

To ensure and protect human rights is an essential part of a nation's social policy. My Government makes it a basic policy to constantly enhance the people's enjoyment of human rights commensurate with our economic and social development. We always hold that the principle of universality of human rights must be viewed in the context of the actual conditions of a given country. Conditions vary from country to country. It is inevitable and normal that there is divergence of views on human rights issues. We are in favour of dialogue on the basis of equality and mutual respect so as to increase mutual understanding. We are against using human rights as a pretext to interfere in the internal affairs of other countries.

BEST COPY AVAILABLE

Next year will mark the fiftieth anniversary of the founding of the United Nations. Both the world and the United Nations have undergone drastic changes in that half century. The United Nations is the most representative intergovernmental Organization of sovereign States. Members of the Organization are equal, irrespective of size, strength or wealth.

Notwithstanding its shortcomings, the status and role of the United Nations in global international affairs remain irreplaceable by any other international organizations or groupings. It is the hope of the people of the world that the Organization will better fulfil the mission conferred on it by the Charter and and that it will make even greater contributions to the maintenance of peace and the promotion of development.

To cope with the greatly changed international situation and grim challenges ahead, United Nations institutions should undergo relevant and necessary reforms. In our view, any such reforms should serve to maintain and enhance the positive role of the United Nations in international affairs and improve its efficiency. At the same time, the reforms should take full account of the concerns and interests of the developing countries, which make up the majority of the membership, so that their role may be enhanced. The function and role of the General Assembly should be strengthened. Reform of the Security Council must be aimed at facilitating a better performance of its functions under the Charter. Any enlargement of the Council's membership must fully conform to the principle of equitable geographical distribution to ensure broader representation. Actions by the Council should better reflect the collective will and common aspirations of the entire United Nations membership.

To prepare for the commemoration of the fiftieth anniversary of the United Nations, China has set up a national committee, in accordance with the relevant United Nations resolution. We hope that the commemoration in various countries in the coming year will be used to review the experience of the past and look to the future so that we may carry forward the purposes and principles of the Charter and enable the Organization to do a better job in maintaining peace and promoting development.

It was sad that the first half of our century witnessed two world wars with disastrous consequences for mankind. The ensuing cold war cast a dark and menacing shadow of war over the world for the greater part of the second half of the century. It is gratifying, none the less, that we have been able to fulfil the historic mission of eliminating the centuries-old colonial system from the Earth within this century. This is unquestionably one of the greatest achievements of contemporary human society.

Looking ahead to the twenty-first century, we are fully confident of the future of humanity. The Chinese people will make common efforts with all other peoples of the world to usher in a new century of peace and prosperity.

Taiwan: Recent Developments and U.S. Policy Choices

SUMMARY

Recent U.S. policy concerns toward Taiwan center on striking a proper balance between increasing ties with the People's Republic of China (PRC) while sustaining support for Taiwan. Despite eased tensions in the Taiwan Strait and extensive Taiwan trade with and investment in the China mainland, the two sides remain politically far apart and compete for influence with the United States and other powers.

Taipei was encouraged and Beijing dismayed by the 1992 decision to sell 150 F-16 fighters to Taiwan and the move to send a cabinet-level official to Taiwan for the first time since the 1970s. More recently, Beijing was encouraged and Taiwan discouraged by the Clinton Administration's reaffirmation of a "one-China" policy favored by Beijing, contrary to Taipei's moves to gain entry into the United Nations.

U.S. policy in this triangular U.S.-PRC-Taiwan relationship is complicated because:

- Many in Congress favor formal efforts to go beyond Administration policy to strengthen U.S.-Taiwan relations in ways sure to antagonize the PRC;
- Taiwan is moving away from past advocacy of one China to positions favoring an official status for Taipei that would both complicate the U.S. "one China" policy and challenge Beijing's claim to sovereignty over the island; and
- Beijing shows little sign of deviating from its claim to Taiwan.

Meanwhile, U.S. officials want to pursue investment opportunities and ease trade issues, notably Taiwan's large trade surplus. They also encourage political democratization even though it fosters separatist tendencies that complicate the official U.S. "one China" policy.

Decision points for the 103rd Congress related to legislation that would

- support Taiwan's entry into the U.N. and other international organizations;
- allow high-level Taiwan officials to visit the U.S.;
- promote arms sales to Taiwan.

Congress passed legislation on these points in S. 1281/H.R. 2333 (P.L. 103-236). But the Clinton Administration announced on May 16 that the law would lead to no change in U.S. policy regarding Taiwan. Meanwhile, many in Congress were angered by the Administration's low keyed handling of Taiwan President Lee Teng-hui's refueling stop in Hawaii in May 1994. The Senate on June 10, 1994, passed a resolution (S.Res. 148) supporting such high-level contacts as well as Taiwan's representation in the U.N. On Sept. 7, 1994, the Administration announced a modest increase in U.S. contracts with Taiwan. In October 1994, Congress passed and the President signed legislation (H.R. 783, P.L. 103-416) urging high-level Taiwan visits.

In the 104th Congress, initiatives focused on Taiwan's entry into the UN, high level Taiwan visits, and greater U.S. arms sales.

Reprinted from Taiwan: Recent Developments and U.S. Policy Choices; Issue Brief, by Robert G. Sutter. Updated Regularly. (CRS Issue Brief IB94006)

Congressional Research Service • The Library of Congress

MOST RECENT DEVELOPMENTS

The first weeks of the 104th Congress saw a stream of official visitors from Taiwan urging U.S. lawmakers to support Taiwan's entry into the UN, encourage the Clinton Administration to allow President Lee to visit the United States in a private capacity, and support greater U.S. arms sales to Taiwan. On February 3, House Speaker Gingrich told Taiwan visitors that he supported Taiwan's entry into the UN. Meanwhile, on Jan. 30, 1995, China's leader Jiang Zemin issued a somewhat positive sounding 8-point proposal to Taiwan leaders. Taiwan leaders responded cautiously while implementing a recent policy boosting economic and other civilian exchanges across the Taiwan Strait.

BACKGROUND AND ANALYSIS

U.S. Interests in Taiwan

The long-standing U.S. involvement with the government of Taiwan has its roots in the World War II alliance with the Nationalist Chinese administration of Chiang Kai-shek. U.S. military protection and over $5 billion in military and economic aid allowed Chiang and his one-party government to consolidate their position on Taiwan, to which they had retreated following the Communist victory on the mainland in 1949. U.S. support was also instrumental in helping Taiwan develop a strong, export-oriented economy, characterized by sustained rapid growth.

Today, the United States is Taiwan's main foreign investor and trading partner. U.S. markets receive about 25% of Taiwan's exports. The United States supplies a much smaller percentage of Taiwan's imports. Overall, the imbalance in U.S. trade with Taiwan led to a $8.85 billion U.S. trade deficit in 1993 -- third largest for the United States after Japan and China.

Taiwan-manufactured electronic goods, textiles, and other consumer products make up the bulk of Taiwan exports to the United States, while Taiwan imports from the United States consist primarily of agricultural products, industrial raw materials, and capital equipment. The close relationship between U.S. investment and Taiwan exports to the U.S. is seen in Taiwan's electronics industry. It is the most important industrial export sector and the largest recipient of U.S. investment (i.e., U.S. corporations invest in Taiwan to produce electronic goods or components for shipment to the U.S. market).

Taiwan's recent high level of foreign exchange reserves (over $80 billion) and its ambitious $300 billion, 6-year development program for the 1990s have also attracted strong U.S. attention. Many U.S. leaders are anxious to encourage Taiwan enterprises to invest in the United States and are interested in assuring U.S. firms can compete for a share of the work involved in Taiwan's new development program.

Taiwan's economic development contributes to continued political stability on the island. Taiwan's per capita income is over $10,000 per year. The economy distributes wealth in a relatively balanced way that gives all major sectors in society an important stake in continued economic progress. The benefits of economic prosperity tended to offset the political costs of opposition to the 40 years of authoritarian, one-party rule by the Chinese Nationalists. The Nationalists continue to follow the political legacy

BEST COPY AVAILABLE

of Chiang Kai-shek, who died in 1975. Thus, while they focus their attention on Taiwan, they insist that they govern the island as part of their mandate as the legitimate government of all of China. They call their government "the Republic of China (ROC)."

American officials long criticized the perceived excesses of the Nationalists' authoritarian rule and pressed for increased political liberalization that would allow the more than 85% of the population whose roots on the island predate 1949 to have a greater role in running their own affairs. Americans broadly support the considerable progress toward democracy in Taiwan made since martial law was lifted in 1987.

U.S. security interests in Taiwan have changed markedly from the 1950s and 1960s, when U.S. forces used the island as a forward base against Sino-Soviet communism in Asia. After the Sino-Soviet split, President Nixon's opening to Beijing, and the major pullback of U.S. forces in Asia under guidelines of the "Nixon doctrine," U.S. officials viewed the mainland government more as a strategic asset against the U.S.S.R. than an adversary to be confronted in the Taiwan Straits. The United States in 1979 broke defense and other official ties with Taiwan to establish formal diplomatic relations with the PRC. The United States subsequently affirmed its security interests in Taiwan through the Taiwan Relations Act (TRA) and the continued supply of U.S. arms to Taiwan. But this reflected a moral commitment to a former ally rather than U.S. interest in using Taiwan's strategic position for broader policy ends. With the thaw in the Cold War in the late 1980s and subsequent collapse of the Soviet Union, U.S. interest in the PRC as a "strategic asset" in global politics declined.

U.S.-PRC-Taiwan Relations Since 1979

The Issue of Diplomatic Recognition

The governments in both Beijing and Taipei have claimed that they represent all of China, including Taiwan. Both long agreed that diplomatic recognition of one foreclosed recognition of the other, until 1989, when Taipei began to show some flexibility on this issue (see discussion below). On Jan. 1, 1979, the United States switched its diplomatic recognition from Taipei to Beijing. In the U.S.-PRC joint communique that announced the change, the United States recognized the government of the People's Republic of China (PRC) as the sole legal government of China and acknowledged the Chinese position that there is but one China, and Taiwan is part of China. The joint communique also stated that "within this context, the people of the United States will maintain cultural, commercial, and other unofficial relations with the people of Taiwan."

The Taiwan Relations Act (TRA), P.L. 96-8, signed Apr. 10, 1979, created domestic legal authority for the conduct of unofficial relations with Taiwan. American interaction with Taiwan is facilitated through the American Institute in Taiwan (AIT), a "nongovernmental" entity. Taiwan's counterpart organization is the Coordination Council for North American Affairs (CCNAA), renamed in 1994 as the Taipei Economic and Cultural Representative Office (TECRO).

On Jan. 1, 1979, at the time of derecognition, the United States notified Taiwan authorities of intent to terminate the 1954 U.S.-ROC Mutual Defense Treaty effective

Jan. 1, 1980. In a unilateral statement released on Dec. 16, 1978 (issued concurrently with the Joint Communique on the Establishment of Diplomatic Relations between the United States and the People's Republic of China), the United States declared that it "continues to have an interest in the peaceful resolution of the Taiwan issue and expects that the Taiwan issue will be settled peacefully by the Chinese themselves."

Since derecognition, the United States, in accordance with the TRA, has continued the sale of selected defensive military equipment and defense technology to Taiwan. These sales have often prompted strong objections from the PRC. On Aug. 17, 1982, a U.S.-PRC joint communique addressed this point. In that communique, the PRC cited a "fundamental policy" of striving for a peaceful solution to the Taiwan question. With that Chinese policy in mind, the United States stated in the communique that

> It does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends to reduce gradually its sales of arms to Taiwan.

U.S. Government arms sales levels slowly declined, but remained over $600 million a year. Taiwan's 1992 purchase of 150 F-16 aircraft (worth $5.9 billion) represented an exception to this trend. U.S. transfers of military-related technology have allowed Taiwan to develop advanced fighter aircraft and other military equipment to defend the island.

U.S. commercial ties with Taiwan have expanded since the 1979 derecognition. Taiwan continues to enjoy Export-Import Bank financing, Overseas Private Investment Corporation (OPIC) guarantees, most-favored-nation status, and ready access to U.S. markets. For several years, Taiwan was the largest beneficiary of the U.S. Generalized System of Preference (GSP) program. In 1988 Taiwan "graduated" from the GSP program. Because of rapid advances in Taiwan's economic growth, the U.S. Agency for International Development (AID) Mission in Taiwan closed in 1965; more than $1.7 billion in U.S. economic aid was provided between 1949 and 1965.

The switch in U.S. recognition and the 1982 communique on arms sales to Taiwan did not remove the so-called Taiwan issue in U.S.-PRC relations. Beijing for many years has encouraged Taipei leaders to begin talks leading to a peaceful reunification of Taiwan with the mainland. It finds that continued U.S. support, especially U.S. arms sales, reduces Taipei's interest in negotiations. It thus concludes that smooth U.S.-PRC relations will require the removal of what it sees as the continued "obstacle" of U.S. arms sales to Taiwan. More recently, PRC officials have alleged U.S. support for those in Taiwan seeking "independence" or an identity for Taiwan formally separate from the mainland.

On Sept. 2, 1992, President Bush announced that the U.S. would agree to sell 150 F-16 fighters to Taiwan; details of the deal were worked out in an agreement signed on Nov. 12, 1992. The deliveries, 32 per year, will start in 1996. Beijing protested strongly this "violation" of the 1982 communique while the Administration stated that the proposed sales were consistent with the communique. Meanwhile, U.S. Trade Representative Carla Hills visited Taiwan in December 1992, marking the first visit of such a high-level U.S. official since 1979.

On July 15, 1993, the Senate Foreign Relations Committee passed an amendment to the 1994-1995 State Department authorization bill (S. 1281) that would amend the Taiwan Relations Act to supersede any provision of the August 1982 communique limiting U.S. arms sales to Taiwan. An amended version, which avoided legally binding language, was passed by the conference committee on H.R. 2333 on April 19 and became P.L. 103-236 on Apr. 30, 1994.

Current Issues in PRC-Taiwan Relations

For many years U.S. policy toward Taiwan and the mainland represented a three-sided, zero-sum game among U.S., PRC, and Chinese Nationalist leaders. U.S. policymakers could assume that improvements in U.S. relations with Beijing would be viewed negatively by the Chinese Nationalists in Taipei; and improvements in U.S. relations with Taipei would be seen negatively in Beijing. The Chinese Communists in Beijing and Chinese Nationalists in Taipei, though no longer actively fighting militarily, were engaged in a protracted political struggle in which relations with the United States were a key point of contention.

The ending of martial law in 1987 and subsequent rapid political liberalization in Taiwan changed this equation substantially in several ways. Chinese Nationalist leaders no longer seek to tightly limit unofficial contacts with the PRC, resulting in more than 5 million visits from Taiwan to the mainland since 1987. Taiwan's annual trade with the mainland in 1994 was worth over $17 billion. Its cumulative investment was estimated by the PRC at $20 billion at the end of 1993. The Taipei leadership also no longer appears as unified as in the past in support of a one-China policy. Political liberalization has allowed the emergence of a viable opposition party, the Democratic Progressive Party (DPP), which publicly supports Taiwan self-determination. Generational and other changes have given rise to a Chinese Nationalist leadership whose roots are in Taiwan, in comparison to earlier Nationalist leaders, like Chiang Kai-shek, whose roots were on the mainland. The new generation of Nationalist leaders is thought to be more ambivalent about the goal of China reunification and more concerned with nurturing progress on Taiwan.

These changes alter U.S. policy concerns. What had been a fairly predictable three-cornered affair now has at least four sides, with the addition of the DPP. And, it is not uniformly a zero-sum affair, as the PRC and Taipei no longer have an exclusively competitive relationship but choose to cooperate on important bilateral subjects, notably trade, investment, and unofficial visits.

International Competition. Beijing and Taipei continue to compete strongly for official international recognition. At present, Beijing holds the upper hand, as most large or otherwise important countries have recognized Beijing and broken official ties with Taipei. Taiwan has official relations with fewer than 30 countries, and most are small. Taipei has also lost out to PRC pressure in most official international organizations. Compromises have been reached allowing Taipei to continue participating in the Asian Development Bank and to join the forum on Asia Pacific Economic Cooperation (APEC), along with the PRC and Hong Kong, in November 1991. Taipei has also focused recently on gaining entry to the U.N., U.N. affiliates, the GATT and other official international organizations. Beijing either opposes such representation for Taiwan or sets conditions compatible with its interests.

The Chinese Nationalist leadership has endeavored to offset this adverse international trend by engaging in what it calls "pragmatic diplomacy." Under recently sanctioned policy guidelines of "one country-two governments" or "one country-two areas," Taipei officials attempt to win official recognition from countries already having official ties with Beijing. Thus far, Taipei has won over a handful of small countries in this way. The expense involved -- Taipei usually accompanies its diplomatic initiatives with offers of assistance -- has provoked controversy in Taiwan. Since the PRC still insists that it is the only legitimate government of China, it breaks relations with countries that establish official ties with Taipei.

Another channel focuses on Chinese Nationalist officials' efforts to build ties, short of formal official relations, with a wide range of important developed and other countries. This so-called "substantive" diplomacy has seen dozens of countries upgrade their informal offices or other interactive mechanisms to manage effectively their growing economic interchange with Taiwan. By 1993, Taiwan claimed to have unofficial relations with 150 countries, to have established 90 offices in 60 countries that did not maintain diplomatic relations with Taiwan, and to be the site of 37 offices of foreign governments that did not maintain diplomatic relations with Taiwan.

Bilateral Contacts. Since at least 1979, Beijing has consistently supported contacts across the Taiwan Straits as a means to encourage Taipei to begin negotiations with Beijing on reunification of Taiwan with the mainland on terms acceptable to the PRC. Beijing's interest in cross-Straits contacts rose following the 1984 PRC-British agreement, which set forth a PRC-backed "one country-two systems" model established by senior leader Deng Xiaoping to govern Hong Kong's return to China's sovereignty that Beijing said should also govern Taiwan's return to the mainland. Taipei rejects the "two-systems" approach because it would give its administration inferior status to that of the PRC.

Fearful of becoming ensnared in formal negotiations with the PRC, where Taipei would clearly be the smaller and weaker party, the Nationalist administration for years stuck to a policy known as the "three nos" -- no contacts, no negotiations, no compromise with Beijing until the PRC met strict conditions requiring the end of communism on the mainland. However, after the lifting of martial law in Taiwan in 1987, the Nationalists faced popular internal pressure to increase advantageous economic and other contacts with the PRC and saw a need to take a series of measures to regulate the strong flow of contacts and control their policy implications. Taiwan's president, Lee Teng-hui, convened a National Unification Council in October 1990 to advise on these matters; later that year a Mainland Affairs Council was set up under the prime minister to direct cabinet-level policy on Taiwan-mainland relations; in May 1991, President Lee ended the state of civil war with the PRC and opened the way to official contacts under the "one country-two governments" formula.

An ostensibly unofficial body, the Strait Exchanges Foundation, was established and after some uncertainty proved able to deal with important practical issues in cross-Strait relations. The PRC set up a counterpart body, known as the Association for Relations Across the Taiwan Straits, in December 1991. Representatives of the two bodies met for formal negotiations on Apr. 27-29, 1993, and signed agreements on several practical matters. Follow-up talks took place later in the year on hijackings and other problems. A new round of talks, held in Taipei on Aug. 4-7, 1994, saw agreements reached on hijackings, stowaways, fishing disputes, and express mail services. On Sept. 30, 1994, President Lee told the *Wall Street Journal* he was willing to meet with senior PRC leaders at international gatherings like the annual summit meeting of the Asian Pacific Economic Cooperation (APEC) forum. Beijing turned down the initiative, but on Jan. 30, 1995, PRC leader Jiang Zemin issued an eight-point plan for mainland-Taiwan relations that received positive interest in Taiwan and abroad. Concurrently, Taipei took a series of steps in early 1995 to boost economic and other civilian exchanges across the Taiwan Strait.

Democratic Progressive Party leaders view the progress in PRC-Taiwan relations with some concern. They are careful not to stand against the popular support for greater Taiwan trade, investment, and other unofficial exchanges with the mainland; but they oppose the Nationalists' repeated calls for eventual reunification, arguing that a plebiscite should be held in Taiwan to determine Taiwan's future status. DPP calls for self-determination and independence sometimes prompt harsh warnings from Beijing that it will resort to force to prevent moves toward formal separation of Taiwan from the mainland.

Nationalist leaders sometimes have been effective in referring to the PRC "threat" to encourage voters in Taiwan to steer away from "radical" DPP candidates and support the Nationalists and the status quo. At the same time, DPP leaders have capitalized on Beijing's relentless diplomatic competition against Taipei to argue that Taiwan would be better off internationally as a *de jure* separate state than in its current claimed status as the government, or at least one government, in China.

Competing U.S. Policy Choices

Strong U.S. supporters of the Nationalist government, encouraged by that government's vigorous public relations efforts, remain a force in American politics. Generally, they see U.S. interests as best served by following policy options that support, or are compatible with, the concerns of the Nationalist administration. In particular, they encourage U.S. policy to take strong action to support Taiwan's international identity and security in the face of the communist mainland. They also contend there is a need for more advanced U.S. military equipment for Taiwan in view of Beijing's increasing military capabilities, including the recent purchase of advanced fighters from Russia. Specifically, they would like the United States to:

- Back Taipei's position vis-a-vis the PRC in the U.N. and in other international organizations such as the Asian Development Bank, the GATT, and U.N.-affiliated organizations;

- Support Taiwan's efforts to raise its international profile under the rubric of pragmatic diplomacy;

- Use the Taipei administration's preferred title, the "Republic of China";

- Send senior U.S. officials to Taiwan, allow the Taiwan president and other senior leaders to visit the United States, and grant Taiwan official access to higher-level U.S. officials in Washington;

- Supply weapons, and support legislation advocating supplying weapons, more advanced and in larger quantities (e.g., 150 F-16s) than those recently supplied by the United States (recent interest focuses on U.S. submarines); and

- Firmly rebuff PRC efforts to obtain U.S. support for negotiations between the PRC and Taiwan.

Opponents of this approach support a contrasting set of policy choices. They are concerned with sustaining Asian stability and avoiding an added burden to U.S. relations with the PRC. They stress that the United States should avoid actions regarding Taiwan that they believe would provoke a negative and possibly hostile PRC response. Thus, they support strict compliance with the U.S. commitment to reduce arms sales to Taiwan, disapprove of the proposed sale of F-16 fighters to the island, and oppose Taiwan's bid to enter the U.N. They also believe that the U.S. position in the Asian Development Bank, GATT, or other public forums should not identify Taiwan as the "Republic of China." Some in this group advocate U.S. support for PRC efforts to encourage greater contacts with Taiwan, even though the Taiwan administration sometimes opposes such contacts.

A third set of policy approaches comes from Members of Congress and others who identify with the political opposition in Taiwan. Some want the U.S. policy commitment to an ambiguous "one-China" principle to be changed in order to support the right of the people on Taiwan to determine their own official status, even if such a U.S. move would alienate both the Nationalist authorities and the PRC leadership. However, this is seen by others as committing the United States to support a course of action that, if taken by Taiwan, could lead to armed confrontation with the mainland. The principle of self-determination enjoys a long history of support in the United States and is consistent with recent U.S. policy in the former Soviet Union and elsewhere. It is also said that, despite strong warnings and capabilities, neither Communists nor Nationalists are prepared to take forceful action to block Taiwan self-determination if that indeed is what the people in Taiwan want. On a more practical level, many Taiwanese-Americans support the amendment to S. 1281 backed by Senator Pell that allowed their passports to say they were born in "Taiwan," not "China" as is currently done and as is favored by both the Beijing and Taipei governments. The amendment is part of P.L. 103-236, the FY1994-1995 State Department Authorization Act. The Administration has said the law will not affect current U.S. policy.

In the wake of President Clinton's May 26, 1994 decision to "de link" Chinese MFN treatment from human rights issues, several in Congress and elsewhere have argued for greater U.S. support for Taiwan as a way to show U.S. displeasure with Beijing. In general, these advocates do not differentiate between those options supporting the nationalist government positions and those options supporting the political opposition in Taiwan.

Economic and Political Issues

Economic Prospects and Concerns

Prospects for continued economic growth in Taiwan are reasonably good. The economy has grown rapidly (over 10% in 1986 and 1987, and 7% in 1988 and 1989; growth slowed to 5%-6% in the 1990s). In 1991, Taipei announced a $300 billion economic development plan over 6 years to help push the economy forward more rapidly in the 1990s.

Taiwan's economy remains vulnerable to rises in oil prices, decline in the U.S. economy, and international protectionism, especially in the United States. Taiwan's GNP growth depends heavily on exports, and about 25-30% of these exports go to the United States. (Leading exports to the United States include wearing apparel and footwear, toys, and various electronic products.)

In recent years, Taiwan government officials have attempted to accommodate increased U.S. pressure on trade issues. They met many U.S. demands for greater market access for U.S. goods and services and responded to U.S. complaints by taking stronger measures to protect U.S. copyrights and other intellectual property rights. A key change has been the Taiwan government's willingness to arrest, try, and punish those who violate existing law. (In the past, such culprits often received only light sentences, if they were prosecuted at all.) Taiwan's legislature passed important copyright legislation on Apr. 22, 1993. On Apr. 30, 1993, the U.S. Trade Representative placed Taiwan on a special 301 priority watch list, but decided not to take immediate retaliatory action. Such action had been anticipated if Taiwan did not pass the copyright legislation. In 1993, the U.S. also began to press Taiwan, as well as mainland China, to observe practices designed to halt the trade in both areas in endangered species (e.g., tigers and rhinoceroses). On Apr. 11, 1994, the United States imposed sanctions on Taiwan wildlife products because of its continued use of products from endangered species.

In response to U.S. and other pressures, Taiwan in the late 1980s allowed the value of its currency, relative to the U.S. dollar, to rise over 30%.

The U.S. trade deficit with Taiwan reached $19 billion in 1987. It was $13 billion in 1988; $12 billion in 1989; $11.2 billion in 1990; about $10 billion in 1991; $9.4 billion in 1992; $8.85 billion in 1993; and $9.6 billion in 1994.

A different set of economic issues flows from Taiwan's large foreign exchange reserves and growing international economic power. On the one hand, this trend prompts U.S. and other foreign officials and business representatives to seek investment or financial support from Taiwan. On the other hand, it prompts some Americans to worry that Taipei enterprises may use acquisitions of distressed U.S. companies to gain quick entry into important markets heretofore dominated by the United States. A notable case in point came in November 1991 when McDonnell Douglas Corporation announced it had agreed to sell a large interest in its commercial jetliner business to Taiwan investors. Twenty-nine U.S. Senators sent a letter to President Bush on Nov. 19, 1991, expressing concern over the deal's implications for the U.S. technological lead, built at great cost, in the aerospace industry. The proposed deal was never completed, in part because of resistance in Taiwan.

Competing U.S. Policy Choices. Many Americans concerned with the large U.S. trade deficit call for strong action (possibly including limitations on foreign access to U.S. markets) to improve the U.S. trade balance. They recognize that such action could negatively affect the economic prosperity and related political stability of a number of important U.S. trading partners, including Taiwan. But they judge that the

United States has little choice but to take firm measures to protect its own markets and economic advancement.

Concern with American industrial competitiveness also motivates Americans who question the sale of sophisticated U.S. industries to wealthy Taiwan enterprises. They favor strict review of such sales to insure that Taiwan investors do not reap a large competitive advantage through investment in hard-pressed but technologically advanced U.S. companies.

An opposing view comes from U.S. supporters of the Nationalist government and the political opposition, Americans concerned with promoting greater political democracy and continued economic prosperity in Taiwan, and free trade advocates who tend to oppose measures designed to restrict foreign exporters' access to U.S. markets. They emphasize the potential negative results in terms of U.S. investment in Taiwan, Taiwan investment in the United States, and U.S. interest in the political and social stability long associated with economic prosperity in Taiwan. They also emphasize the negative results for U.S. interests in a free international trading system that they believe would result from restrictive trade legislation or administrative actions.

Political Liberalization

Under Chiang Kai-Shek's leadership, the Nationalist Party-dominated government ruled in a sometimes harsh authoritarian fashion. It pursued policies of a strong national defense against the communist mainland and export-oriented economic growth. It tolerated little open political dissent.

In the 1970s, the U.S. and most developed countries recognized the PRC and broke official ties with Taipei. Under international pressure, Taiwan lost the China seat in the U.N. and most official international bodies.

These international setbacks challenged a major source of the political legitimacy of the Nationalist regime. It was harder to argue that people on Taiwan should accept and pay for an elaborate central government administration that included a majority of representatives who were elected on mainland China prior to the Communist victory there and Nationalist retreat to Taiwan in 1949. Nationalist leaders, especially Chiang Kai-shek's son, Chiang Ching-kuo, emphasized other elements in support of the Nationalists' rule, noting in particular the leadership's successful supervision of Taiwan's dramatic economic progress. Chiang and his associates also were at pains to introduce to power more "Taiwanese" -- 85% of the island's population whose roots go back to Taiwan prior to the influx of two million "mainlanders" associated with the Nationalist regime at the time of the Communist victory on the mainland. The vast majority of the Nationalist party's rank and file were Taiwanese, and important local dignitaries, including the current President, Lee Teng-hui, were raised to high positions.

A combination of international and domestic pressures accelerated the pace of political reform in the middle and later 1980s. Authoritarian rule was overthrown in the Philippines and South Korea. Encouraged by the events, Taiwan opposition leaders announced in September 1986 that they had formed a formal opposition party, the Democratic Progressive Party. In a December 1986 election under their new banner, the DPP candidates received about 22% of the vote, an increase over the 17% received by opposition politicians who ran without party affiliation in the last such election in 1983.

President Chiang Ching-kuo ended martial law in July 1987. The opposition shifted focus to calls for an overhaul of Taiwan's National Assembly, Legislative Yuan and Control Yuan -- important legislative bodies still dominated by mainlanders elected over 40 years earlier; the direct election of the President by the people; and the Taiwan people's right to determine their international status. Following Chiang Ching-kuo's death in January 1988, the new President, Lee Teng-hui, reaffirmed a commitment to reform that would legalize opposition parties and restructure parliamentary bodies. An election held in December 1989 saw the Nationalist Party get about 65% of the vote and the DPP over 30%.

Highlights of subsequent reform efforts follow.

- May 1991. President Lee ended the state of civil war with the PRC and the associated "temporary provisions" that had given Nationalist leaders "emergency" powers to deal with dissent.

- December 1991. Members of legislative bodies elected in the mainland over 40 years ago retired. An election was held on December 21 to fill 325 seats in a new National Assembly. The Nationalists won 71% and the DPP about 24% of the vote.

- 1992. The new National Assembly began what became a long process to revise the constitution. Issues included how the President is elected; how the central government relates to provincial and local governments; and whether the central executive should have a presidential system, a parliamentary system, or some other system.

  Elections for the Legislative Yuan took place on Dec. 19, 1992. The Nationalist Party did poorly, getting only 53% of the vote. The DPP got 31%. By combining with Nationalist Party members who ran without party endorsement, the Nationalists controlled 103 seats in the new legislature; the DPP had 50 seats. The Nationalist majority was reduced when six legislators joined with others to form a new political party, the Chinese New Party, in August 1993.

- 1993. Elections for county magistrates and other local officials were held on November 27. The Nationalists won 13 seats and the DPP only six. But, the popular vote saw the Nationalist Party for the first time sink below 50% (47%) and the DPP rise to 41%.

- 1994. Elections for mayors of smaller cities, county assemblies, and city councils on Jan. 29, 1994, showed some gains for the DPP but demonstrated the Kuomintang's continued dominance at the grass-roots level of Taiwan politics. The DPP won about 15% of the total vote; the Kuomintang, over 60%. Elections for the governor of Taiwan and mayors of Taipei and Kaohsiung were held in December. The DPP won in Taipei, while the Nationalists won the governor and mayor of Kaohsiung posts.

- 1996. An election to determine the President is planned to be carried out under whatever terms are set forth in the constitutional revision.

Competing U.S. Policy Choices. Americans strongly concerned with promoting democracy abroad have joined with small but well-organized groups of Taiwanese-Americans to push for greater U.S. efforts to promote political liberalization in Taiwan. They argue that U.S. pressure is needed to force the Nationalists to reduce political restrictions and allow the development of a truly multi-party democratic political system on Taiwan. Some of these groups urge U.S. support for Taiwan's self-determination, fearing that the alternative is an inexorable movement of Taiwan toward unification with what they see as a brutal and corrupt PRC administration.

An opposing view comes from Americans who identify closely with the Chinese Nationalist administration and urge U.S. support for Taipei's gradual and incremental efforts to develop greater political liberalization on Taiwan. Meanwhile, these Americans and those keenly concerned with U.S. relations with the PRC warn of a serious problem for U.S. interests stemming from greater political liberalization in Taiwan. They judge that such liberalization might lead to overt moves like a plebiscite or other action that would establish a separate identity for Taiwan vis-a-vis the mainland. They see such separation deepening the already serious U.S.-PRC differences over Taiwan, and possibly endangering the stability in the Taiwan Straits. They aver that the current "studied ambiguity" of the one-China principle governing U.S. China policy provides little guidance on how to handle this kind of delicate policy situation, which many U.S. officials would prefer to avoid.

LEGISLATION

H.Con.Res. 12 (Solomon)

Relating to the Republic of China (Taiwan's) participation in the United Nations. Introduced Jan. 4, 1995; referred to Committee on International Relations Jan. 4, 1995.

H.Con.Res. 33 (Lantos)

Expressing the sense of Congress regarding a private visit of President Lee Teng-hui of the Republic of China on Taiwan to the United States. Introduced Mar. 6, 1995; referred to Committee on International Relations.

S.Con.Res. 3 (Simon)

Relating to the Republic of China (Taiwan's) participation in the United Nations. Introduced Jan. 19, 1995; referred to Committee on Foreign Relations; reported favorably Mar. 22, 1995.

S.Con.Res. 9 (Murkowski)

Expressing the sense of Congress regarding a private visit by President Lee Teng-hui of the Republic of China on Taiwan to the United States. Introduced Mar. 6, 1995; referred to Committee on Foreign Relations; reported favorably Mar. 22, 1995.

BEST COPY AVAILABLE

CHRONOLOGY

03/01/95 --- Taiwan allowed foreign-registered vessels to conduct direct trade between Taiwan ports and mainland China.

02/09/95 --- At a House International Relations Asian Affairs subcommittee hearing, a Clinton Administration official refused to support congressional sentiment to allow Taiwan President Lee Teng-hui to visit the United States in a private capacity, to support Taiwan's bid to enter the UN and other bodies, and to back proposed U.S. submarine sales to Taiwan.

02/03/95 --- House Speaker Gingrich supported Taiwan's entry into the UN.

01/30/95 --- China's leader Jiang Zemin issued a positive sounding 8-point proposal on Taiwan-mainland relations.

12/16/94 --- Taiwan's newly reorganized cabinet showed greater flexibility than previous governments in promoting closer and more direct economic interchange with mainland China.

12/05/94 ---U.S. Transportation Secretary Pena met with senior officials in Taiwan.

12/03/94 ---In island-wide elections, the ruling Nationalists won the posts of governor of Taiwan and mayor of Kaohsiung, while the opposition DPP won the mayor of Taipei post.

11/14/94 ---Nationalist troops on off-shore islands shelled a settled area on the mainland, injuring four people. Taipei apologized for the incident, the first such armed conflict in the Taiwan Strait area in over 15 years.

10/22/94 --- Japan's International Trade Minister and Taiwan's Economic Minister had an official meeting in Osaka -- the first Japan-Taiwan ministerial meeting in over 20 years.

09/30/94 --- President Lee Teng-hui said he would be willing to meet with senior PRC leaders at international gatherings.

09/21/94 --- The U.N. General Committee rejected a petition to study the issue of Taiwan's representation in the U.N.

09/27/94 --- Under pressure from the PRC, President Lee canceled his planned visit to the Asian Games in Japan. A Taiwan Vice Premier would take his place.

09/07/94 --- The Clinton Administration's Taiwan policy review called for modestly increased contacts with Taiwan. It was criticized, for different reasons, by Beijing, Taipei, and several in Congress.

08/07/94 --- Talks in Taipei ended for senior representatives of ostensibly unofficial Taiwan and mainland organizations dealing with cross-straits relations.

08/05/94 --- Despite strong PRC objections, Taiwan representatives held a "dialogue" session with some officials attending the annual South Pacific Forum ministerial meeting in Australia.

07/29/94 --- Amid continuing controversy, Taiwan's national assembly passed 10 constitutional amendments including one calling for the direct popular election of the president and vice president.

07/21/94 --- Beijing rejected a suggestion that Taiwan be allowed to join the ASEAN Regional Forum.

07/15/94 --- Twelve UN members asked the UN to set up an ad hoc committee to study membership of "The ROC on Taiwan."

07/05/94 --- Taiwan released a "white paper" on Taiwan-mainland relations. Beijing was critical.

05/16/94 --- The State Department said that the variety of Taiwan provisions in H.R. 2333 (P.L. 103-236) would not alter U.S. policy and practice toward Taiwan.

04/11/94 --- President Clinton imposed sanctions on Taiwan wildlife products.

04/09/94 --- President Lee strongly criticized mainland authorities' handling of an incident Mar. 31, 1994, in which 24 Taiwan tourists died.

02/14/94 --- President Lee completed a week-long "vacation" swing through the Philippines, Indonesia, and Thailand, meeting senior officials at each place. Beijing protested.

01/29/94 --- In elections for numerous local councils and other posts, the Kuomintang dominated, winning over 60% of the vote, while the DPP won about 15%.

11/27/93 --- Island-wide elections saw the Nationalists do well in gaining 13 seats but do poorly in the popular vote, falling under 50% for the first time (47%). The DPP received an unprecedented 41% of the popular vote, but party chairman Hsu Hsinliang resigned over the DPP's failure to gain more seats (6).

08/31/93 --- The PRC released a lengthy and unprecedented "white paper" on Taiwan.

08/25/93 --- The Chinese New Party was set up in Taiwan.

4/27-29/93 Senior representatives of the ostensibly unofficial Taiwan and mainland organizations dealing with exchanges across the Taiwan Straits held talks in Singapore.

12/19/92 --- Legislative elections saw the Nationalist Party do more poorly than expected, garnering 53% of the popular vote; the opposition DPP got 31% of the vote.

12/02/92 --- U.S. Trade Representative Carla Hills began a visit to Taiwan.

11/12/92 --- The U.S. and Taiwan signed a formal agreement covering the sale of 150 F-16A/B fighters to Taiwan, with deliveries (32/year) to start in May 1996.

09/02/92 --- President Bush agreed to sell 150 F-16 jet fighters to Taiwan.

12/21/91 --- A National Assembly election was a setback to the DPP, which got less than 24% of the vote, as opposed to the Nationalists, who received over 71%.

08/29/91 --- Using a compromise formula, Taiwan agreed to join the Asia-Pacific Economic Cooperation (APEC), along with the PRC and Hong Kong.

12/22/90 --- President Lee laid out an ambitious program for political change.

03/21/90 --- Lee Teng-hui was elected president by the National Assembly.

12/02/89 --- Elections in Taiwan saw the opposition DPP garner over 30% of the popular vote and win several key races.

03/22/88 --- The *New York Times* reported about U.S. concern over the past 2 decades over Taiwan's alleged off-again, on-again efforts to develop a nuclear weapons capability.

07/15/87 --- Martial law ended in Taiwan.

FOR ADDITIONAL READING

Clough, Ralph N. *Island China*. Cambridge, MA, Harvard University Press, 1978.

----- *Reaching Across the Taiwan Strait*. Boulder, Co, Westview Press, 1993.

Gold, Thomas B. *State and Society in the Taiwan Miracle*. Armonk, NY, M.E. Sharpe, Inc., 1986.

Kaplan, David E. *Fires of the Dragon: Politics, Murder, and the Kuomintang*. New York, Antheneum. 1992.

Kristof, Nicholas. "A Dictatorship That Grew Up." *New York Times Magazine*. Feb 16, 1992.

Long, Simon. *Taiwan: China's Last Frontier*. London, Macmillan and Company. 1991.

Myers, Ramon (ed.). *A Unique Relationship: The United States and the Republic of China Under the Taiwan Relations Act*. Stanford, CA, Hoover Institution Press, 1989.

Simon, Denis Fred and Michael Ying-mao Kau. *Taiwan: Beyond the Economic Miracle*. White Plains, New York, M.E. Sharpe, 1992.

Sutter, Robert G. *Taiwan: Entering the 21st Century*. Asia Society, University Press of America, 1988.

Sutter, Robert G. and William Johnson (eds.). *Taiwan in World Affairs*. Boulder, CO, Westview Press, 1994.

Tien, Hung-mao. *The Great Transition: Political and Social Change in the Republic of China*. Stanford, CA, Hoover Institute, 1989.

BEST COPY AVAILABLE

Hong Kong's Political Transition: Implications for U.S. Interests

SUMMARY

On Oct. 7, 1992, Hong Kong's new Governor Christopher Patten unveiled proposals to expand the voting franchise in Hong Kong and broaden the scope of democratic institutions. Patten's proposals reflected a growing desire on the part of the colonial government and the people of Hong Kong that, in the aftermath of the 1989 Tiananmen crackdown, Hong Kong should erect safeguards against capricious Chinese government action after 1997. The proposals were seen by the British authorities as consistent with the 1984 Sino-British Joint Declaration -- the agreement governing Hong Kong's transfer to Chinese rule, but Beijing disagreed.

For Beijing, Patten's proposals raised a security issue, because it viewed the establishment of more democratic institutions as a threat to its ability to resume unimpeded sovereignty over Hong Kong in 1997. Subsequent Chinese rhetoric denounced the proposals as a violation of the 1984 Sino-British Joint Declaration. In 1993, attempts by both sides to reach a negotiated settlement on the reform package broke down after seventeen frustrating rounds. On Dec. 2, 1993, Governor Patten announced that he would submit part of his reform package to the Legislative Council (Legco) without China's endorsement. Legco finally passed the reform measures in June 1994. District board elections were held the following September. In response, Beijing announced its intention to dismantle all of Hong Kong's democratic institutions after it resumes sovereignty in 1997.

Beijing's intentions pose a threat to U.S. interests in Hong Kong because the Patten reforms are in line with general U.S. goals of promoting human rights and political liberalization, and with the more particular U.S. interest in maintaining Hong Kong's autonomy to the maximum possible extent after China resumes sovereignty in 1997. U.S. economic interests are a major issue, for if the present confrontation results in a rocky transition that destabilizes Hong Kong's economy, U.S. economic interests may be adversely affected. These interests presently include: U.S. investments in Hong Kong totalling $8 billion; nearly $10 billion worth of U.S. exports to the territory; and Hong Kong's role as a major transshipment point for over $20 billion worth of U.S. imports from China.

The ability of the United States to directly influence the course of the transition seems marginal unless the United States decided to confront Beijing more directly over the issue. Recent developments in U.S.-China relations suggest the United States might be reluctant to do so. Congressional interest in the issue is evident in 1992 U.S. legislation that requires the State Department to report regularly on political and human rights conditions with Hong Kong, and that permits the President to suspend agreements with Hong Kong after 1997 if he determines that China is not granting the territory sufficient autonomy.

The effect of Hong Kong's political transition on U.S. interests could depend in large part on the nature of the transition itself. If the transition proceeds smoothly, then U.S economic interests may be less likely to be severely damaged, although a smooth transition may see a halt to further political reform and a slowdown of Hong Kong's economy. A rocky transition could threaten U.S. political and economic interests, because it could lead to political and possibly economic instability in Hong Kong.

Reprinted from Hong Kong's Political Transition: Implications for U.S. Interests; Issue Brief, by James Casey Sullivan and Robert G. Sutter. Updated Regularly. (CRS Issue Brief 94051)

Congressional Research Service • The Library of Congress

MOST RECENT DEVELOPMENTS

Hong Kong officials were relieved that the United States and China reached agreement on intellectual property rights disputes on Feb. 26, 1995, and thereby avoided threatened trade actions that reportedly would have cost Hong Kong's economy over $1 billion annually. Municipal elections in Hong Kong on March 5, 1995 saw the election of candidates from pro-democracy parties and from a pro-Beijing party, along with many independents.

A legally required U.S. State Department report of Mar. 31, 1995, warned of potential uncertainties in Hong Kong's legal and political systems if greater Sino-British progress on these issues is not made prior to 1997; urged the two parties to seek agreement allowing the Hong Kong Legislative Council to continue in office after 1997, the setting up of a Court of Final Appeal, and the sorting out differences over an ambitious ship container project; and pointed to problems of media self-censorship and discontent in the civil service.

BACKGROUND AND ANALYSIS

Hong Kong has long been a point of U.S. economic, political, and other interests in Asia. Recent developments there have mixed implications for those interests. On the one hand, Hong Kong's economy, increasingly tied to the vibrantly expanding Chinese mainland economy, continues to grow -- 1993 growth was nearly 6%. Over the last decade, Hong Kong has risen from the 15th largest to the 8th largest trader in the world, and its per capita GDP has climbed from $6,000 to $20,000. With a population of 6 million, Hong Kong's economy presently accounts for nearly one-quarter of mainland China's GDP. Political stability is more tenuous, as Britain and China have argued acrimoniously over political reforms proposed by Hong Kong Governor Chris Patten. After long deliberation, the Hong Kong legislature passed Patten's reforms on June 29, 1994. Beijing reacted sharply negatively, asserting that China would dismantle the Hong Kong democratic structure once it regains sovereignty in 1997.

U.S. Stake in Hong Kong

The United States has several areas of interest in these developments.

Economic: Hong Kong is the largest base of American economic operations in Asia. Nearly 30,000 Americans live and work there; 900 U.S. firms have corporate offices in Hong Kong, most of which are used as financial and marketing bases in support of substantial manufacturing facilities in mainland China and as headquarters for business activities throughout Asia. By 1993, U.S. investments in Hong Kong totaled $8 billion. U.S. exports to the territory in 1994 amounted to $8.1 billion, while U.S. imports were about $8.7 billion. Hong Kong is the major transhipment point for Chinese products exported to the United States, which were valued at over $20 billion in 1993.

Human Rights/Democracy: Since the 1989 Tiananmen Massacre in Beijing, U.S. leaders, especially in the Congress, have paid sometimes close attention to the human rights situation in Hong Kong. They have been generally supportive of Governor Patten's efforts to increase modestly the level of democracy in the territory prior to its reversion to China. Some have been critical of China's pressure tactics and opposition to those democratic moves.

Taiwan: U.S. leaders sometimes view Beijing's handling of the Hong Kong transition as a model for the way Beijing would likely handle reunification with Taiwan. Chinese authorities make clear that Deng Xiaoping's "one country-two systems" policy approach applies to People's Republic of China (PRC) policy to both territories. A smooth transition in Hong Kong would presumably buttress the arguments of those who assert that American interests in Taiwan would not suffer from reunification, while a rocky transition would support the arguments of those who press for strong U.S. support for Taiwan's separate status from the mainland.

MFN, other aspects of China policy: Considerations over Hong Kong have been an important element in the ongoing U.S. debate over China policy since the Tiananmen incident, especially the debate over whether or not the United States should approve Most Favored Nation (MFN) tariff treatment for Chinese exports to the United States. On the one hand, critics of China argued in the past that MFN and other favorable treatment for China should be withheld unless Beijing met certain conditions, including a more accommodating Chinese stance on democracy and human rights in Hong Kong. An important counterargument held that cutting off MFN would have a disastrous economic and perhaps negative political impact on Hong Kong, especially as the bulk of Chinese exports to the United States pass through the colony.

Congressional Action and Current U.S. Law. Congress has focused more on Hong Kong in recent years. So far, the main thrust of legislation has been to provide for continuity in U.S. relations with Hong Kong after it reverts to Chinese control. In 1990, Congress enacted the Immigration Act of 1990, which establishes a separate immigrant visa quota for Hong Kong and offers a deferred visa to Hong Kong residents, thereby providing a possible future refuge without provoking an immediate exodus. In 1992 Senator Mitch McConnell, concerned over what he described as the complete lack of any U.S. policy for dealing with impending Chinese rule over Hong Kong, introduced legislation which set forth prescriptions for how the United States should conduct bilateral relations with Hong Kong as a non-sovereign entity. His bill (S. 1731), enacted as P. L. 102-383, does a number of things, including the following:

- Declares that support for democratization is a fundamental principle of the United States that should apply to U.S. policy toward Hong Kong after 1997.

- Declares congressional support for the Sino-British Joint Declaration and makes a number of findings about what that agreement provides for, including the fact that Hong Kong's legislature (Legco) will be constituted by elections, and that all agreements the United States has implemented with Hong Kong by June 30, 1997, will continue in force after that date.

- Requires the United States to apply the same laws toward Hong Kong after 1997 as were in force before that date, but permits the President to suspend those agreements beginning July 1, 1997, if he determines that China is not giving Hong Kong sufficient autonomy.

- Requires the Secretary of State to report to Congress every 18 months on the situation in Hong Kong, including on the development of Hong Kong's democratic institutions.

In the 103rd Congress, Senator Connie Mack and Representative John Porter, concerned about possible Chinese reprisals against journalists for their reporting, each introduced legislation (S. 665 and H.R. 1265) that would have provided a certain number of deferred visas to Hong Kong journalists and their families. Late in the session, on Oct. 5, 1994, the Senate passed S.Res. 265 commending the recent district board elections in Hong Kong.

Background to the Current Political Tension in Hong Kong

Hong Kong Governor Chris Patten precipitated a major protracted political confrontation with Chinese leaders when he proposed in the fall of 1992 to broaden the political representation of legislative institutions in Hong Kong. Patten had called for consultations with Beijing on the proposals, but Beijing refused, reacting sharply to the governor's publication of the proposals before agreement had been reached with China.

The current impasse stems from the June 1989 Tiananmen Square incident and the respective reactions in Hong Kong and China. Between 1984 and 1989, the British and Chinese had settled into a pattern of generally cooperative interaction over Hong Kong. Difficult bilateral negotiations in 1982-1984 had led to the joint Sino-British Declaration of 1984 governing Hong Kong's reversion to Chinese sovereignty in 1997. Faced with the strong Chinese insistence on regaining sovereignty over the territory, Britain had felt compelled to give ground repeatedly in the course of the negotiations. China also made compromises -- most notably its pledge to leave Hong Kong's socioeconomic system virtually unchanged for 50 years after 1997, leading to an agreement in 1984 that seemed to many to hold promise for a smooth transition to Chinese rule under the Chinese leadership's general guidelines of "one country-two systems." Subsequently, British officials reportedly considered political reforms that would grant the people of Hong Kong greater autonomy in the period leading to 1997. But London moved cautiously in part out of concern over the Chinese government's staunch objections to granting the Hong Kong government a distinct political status separate from PRC control after 1997.

The Tiananmen Square crackdown saw over one million Hong Kong citizens demonstrate against the PRC government's action. People in the territory were influential in supporting dissidents in the PRC and in smuggling out political critics and information that proved to be damaging to the Beijing regime's standing at home and abroad. This changed British and Chinese attitudes toward Hong Kong in several ways.

For the British, the so-called politically apathetic Chinese people in Hong Kong had shown keen interest in politics. Many pressed for more support from London to establish better safeguards against possibly capricious PRC government action toward Hong Kong after 1997. Prominently suggested by the increasingly important middle class of professionals and business people in the colony was the strengthening and expanding of representative government in Hong Kong.

For China, the demonstrations and subsequent action of people in Hong Kong raised a major security concern. They heightened PRC sensitivities over any action by the British or others that could be seen fostering political or other conditions in Hong Kong that were at odds with Beijing's definition of stability. Consequently, when Beijing promulgated the so-called Basic Law governing Hong Kong in 1990, it strengthened wording concerning subversion.

British Actions: To reassure those in Hong Kong and avoid unduly antagonizing Beijing, British authorities took several measures. Key among them were the passage of a Bill of Rights for Hong Kong citizens; the granting to an additional 50,000 Hong Kong heads of families with close ties to Great Britain the option to emigrate there; and the encouragement of the United States, France, and others to grant more generous immigration options to Hong Kong employees of American, French, and other institutions and businesses in Hong Kong. Elections for the 18 seats of the Hong Kong Legislative Council (Legco) returned by geographical constituency elections were held for the first time in 1991 and were won by vocal critics of China.

The British engaged in two major undertakings to affirm their support for Hong Kong after Tiananmen. They proceeded with plans to build a large, complicated, and expensive airport project, and they obtained Chinese approval that those Hong Kong legislators elected before 1997 would be allowed to serve out their terms after China took over in July 1997 (the latter concept is referred to as the "through train"). Almost from the outset, the airport plan and the "through train" for certain Legco members (e.g., vocal critic of the PRC, Martin Lee) met with serious Chinese objections. Chinese leaders were able to call international financial support for the airport into question by asserting that they had not been adequately consulted on the project and that its financing might have to be reviewed after 1997.

In an effort to cut through the difficulties over the airport and the "through train" and to get these program back on track, Prime Minister Major in September 1991 became the first Western head of government to travel to Beijing after the Tiananmen incident. He signed a memorandum of understanding with Beijing over the airport, but subsequently Chinese officials continued to voice reservations that made it difficult to move ahead with the project.

Under the circumstances, Britain decided to shift the style if not the substance of its policy toward Hong Kong. The more cautious policy of the recent past, solicitous of PRC concerns and fearful of antagonizing China, was put aside in favor of a more direct approach under the leadership of Governor Patten. The new Governor's proposal in the fall of 1992 to broaden representation in Legco was a notable case in point. The Chinese had privately asked for consultations before the Governor went public with the new plan. The Governor went ahead anyway, announcing the plan and calling on the Chinese to consult.

By Western standards, the proposals seemed mild. Patten did not propose increasing the number of directly elected seats in Legco. Patten's proposals included the following:

Patten's Proposal	Status Quo/China's Position
Expand the number of functional constituencies in Legco to 30, and broaden their franchises to include the entire working population of 2.7 million. [2]	There were 21 functional constituencies with membership limited to elite in the profession -- e.g., to lawyers, but not to paralegals or legal secretaries; Beijing had agreed to 30 functional constituencies, but not to their expanded franchise.
Abolish appointments to Municipal Councils and District Boards and expand District Board jurisdiction. [1]	Some members were elected and others were appointed by the Governor.
Abolish the tradition of appointing some Legco members to serve concurrently on the Executive Council (Exco), the Governor's appointed advisory board or "cabinet." [3]	Beijing had objected to the prospect that newly elected, liberal Legco members might be appointed to serve on Exco, giving them greater influence in the government.
Draw most of the members of the yet-to-be-formed "Election Committee" (which is to elect 10 Legco members) from the elected membership of the District Boards beginning in 1995. [2]	The Basic Law, which establishes the Election Committee, is silent on how its members are selected; Beijing has assumed all members would be appointed.
Reduce the size of geographic constituencies for Legco elections and establish a system of one seat = one vote. [1]	There were 9 double-seat geographical constituencies where each elector could cast two votes, returning 18 members to Legco.
Lower the voting age to 18. [1]	The voting age was 21.

[1] Proposal incorporated in the first legislative package passed on Feb. 23, 1994.

[2] Proposal incorporated in the second legislative package introduced on Feb. 25, 1994.

[3] Proposal enacted administratively by Governor Patten in 1993.

Patten continued to move ahead with his planned reforms despite strenuous PRC objections. Compromise reached in mid April 1993 allowed new Sino-British talks on Hong Kong, but the talks dragged on. Legco passed the reforms in June 1994. On Sept. 18, 1994, Hong Kong held district board elections.

China's Reaction: Beijing has been suspicious of the trends in British policy after Tiananmen. The Chinese government reportedly was willing to acquiesce in British actions over the Bill of Rights, passports, and other steps. The Hong Kong airport was a different matter. Its great size and expense ($20 billion) raised Chinese suspicions that Britain would attempt to drain Hong Kong's substantial treasury surplus prior to 1997. Furthermore, Beijing felt Britain's handling of the airport proposal ignored China's insistence that it be sufficiently consulted by Britain on all major issues affecting Hong Kong after 1997. The actions of Governor Patten in moving ahead with political reforms of Legco despite Chinese private objections greatly increased Chinese displeasure and brought about a continuing barrage of rhetoric and other pressure on the Governor.

BEST COPY AVAILABLE

Beijing maintains that Patten's changes will complicate Chinese reassertion of sovereignty in 1997; make more difficult the delicate task Beijing faces in trying to run the territory effectively after 1997; and in the meantime divide political opinion and reduce business confidence in the territory.

In response to Patten's initiatives, Beijing set up its own advisory body for Hong Kong, known as the "Preliminary Working Committee," and pledged to end the "through train" and dismantle the current legislative structure of Hong Kong. Beijing also has stalled in approving the ambitious airport project, although Britain and the Hong Kong government proceeded with a number of important contracts for the project. On Nov. 4, 1994, Britain and China reached broad agreement on most aspects of financing for the airport project. Britain and China also reached agreements in June 1994 and in November 1994 regarding respectively use of military sites in Hong Kong and land requirements for the airport project.

Hong Kong 1997: Possible Outcomes and Implications for U.S. Interests

Outcomes seen as possible over the next 3 years include:

1) Successful Drive for Strong Autonomy. This outcome assumes that Beijing refrains from interfering in Hong Kong's political and economic affairs, provided the authorities there consult regularly with the PRC, avoid overt challenges to PRC control, and pursue economic and political policies conducive to the economic and political well being of the nearby parts of mainland China. This outcome most clearly serves the economic interests of the United States. It also appears to provide the greatest level of political freedom in the territory -- an important interest of the United States. In the period up to 1997, the political leadership in Hong Kong may attempt to enable the territory to continue its present life-style and functioning in the world economy without undue deference to China's post-1997 legal sovereignty over the territory. Achieving this degree of autonomy would require not only strong -- albeit probably quiet -- support from the international community, but also a Chinese determination that political intervention by Beijing would adversely affect Hong Kong's economy and that this economy is vital to China's economic development. Such an outcome may be unlikely because Beijing places such importance on its full recovery of sovereignty over Hong Kong.

2) Drive for Strong Autonomy Derailed. Perhaps more likely, Hong Kong may attempt to secure some kind of more autonomous status, and this would likely elicit a harsh reaction from Beijing. Although China does value Hong Kong's vibrant economy, during the transition process Beijing has consistently demonstrated a willingness to suffer economic decline in Hong Kong (brought on by a possible crisis of confidence in Hong Kong's future) where fundamental issues of sovereignty are at stake. Harsh reaction from Beijing would likely result in substantial economic troubles for Hong Kong and this would adversely affect large U.S. economic interests there. Moreover, if the United States were to openly support some kind of more autonomous status for Hong Kong, this might bring Chinese recriminations, thus potentially affecting broader U.S.-China relations. Finally, the United States may find itself involved in any refugee problems that might result from a rocky transition in 1997 caused by Hong Kong assertiveness and/or PRC repression.

3) A Hong Kong-led South China Economic Territory. This outcome would involve a pragmatic Hong Kong populace and leadership willing to put aside demands for political reform in favor of continued economic growth. It would also depend on a reform-minded Chinese leadership willing to grant Hong Kong and the Special Economic Zones (SEZs) of southern China great leeway in leading the mainland's economic development. Such an outcome may lead to decentralization in China as a whole, which could either benefit or harm U.S. interests depending on the degree of decentralization. Ideally, modest decentralization in China would decrease the power of a still stable central government. This could benefit U.S. security interests by making China a less assertive, more manageable international actor. Radical decentralization, however, could lead to a disintegration of socioeconomic and political order in China, which would appear to threaten U.S. economic and security interests in East Asia.

4) Convergence with the Mainland: Possible Economic Slowdown in Hong Kong. Another possible outcome sees a Hong Kong fully aware of Beijing's determination to regain sovereignty over Hong Kong, even at the cost of some economic prosperity in the territory. Most in Hong Kong would then pragmatically shelve political demands and actively encourage economic convergence. Others, their confidence in Hong Kong's future shaken, would leave the territory. Nervous investors may divert capital to other points in East Asia. This brain drain, decreased levels of investment, and the inefficiencies born by converging with the relatively inefficient mainland economy may result in a slowdown, but not a destabilization, of Hong Kong's economy. Consequently, U.S. economic interests may suffer under such an outcome and the United States may find itself drawn into the migration problem resulting from Hong Kong's brain drain. On the other hand, provided that China's coastal economy continues to grow strongly, Hong Kong's economy may merely continue the recent practice of steady growth as it and the mainland's economy integrate more closely.

(For further discussion of possible outcomes, see Gerald Segal, *The Fate of Hong Kong*, New York: St. Martin's Press, 1993.)

U.S. Policy Options

The ability of the United States to directly affect the course of events in the run-up to the 1997 transition seems marginal unless it decides to confront Beijing more directly over the Hong Kong issue. Developments in U.S.-China relations in 1994-1995 suggest that the U.S. might be hesitant to do so. President Clinton's decision in May 1994 not to link China's MFN tariff treatment to other issues in U.S.-China relations was endorsed by the House of Representatives in a vote on Aug. 9, 1994. In effect, this suggested that the United States would be more reluctant than in the post-Tiananmen period to consider using access to MFN as a means to pressure China on Hong Kong or other issues. In any case, the use of MFN or other trade sanctions would be likely to injure Hong Kong, especially as it becomes ever more integrated with China's economy.

Today, supporters of Governor Patten's reforms advocate a carefully calibrated U.S. policy designed to underline strong U.S. concern with stability, progress and human rights, while avoiding direct pressure on the PRC unless conditions deteriorate notably. At bottom, many of these observers want the United States and others to show Beijing that they are keenly interested in the outcome in Hong Kong and that any heavy-handed Chinese pressure would be viewed negatively by them. Specific options with relevance for Congress that are favored by this group include possible congressional hearings and reports; congressional meetings with Hong Kong and Chinese officials in the United States and abroad; and legislative action like the 1992 U.S. Hong Kong Policy Act that would give Hong Kong as much status as possible in international organizations and international law and practice, without directly countervening existing Sino-British agreements.

Some in Hong Kong and the United States who strongly support Governor Patten argue for a somewhat more assertive U.S. policy. They urge the United States to use provisions in the U.S.-Hong Kong Relations Act (P.L. 102-383) that allow the United States to suspend legal and other benefits for Hong Kong after 1997 if the PRC does not allow sufficient autonomy there. These benefits range from textile quotas, to immigration quotas and technology transfer restrictions. Their loss to Hong Kong would have a strong negative impact on China and presumably could be used to dissuade the PRC authorities from infringing too much on Hong Kong autonomy.

In contrast, PRC officials have warned repeatedly against greater U.S. involvement in this issue. They aver that Chinese sensitivity on this question is very high and U.S. "meddling" would pose unpredictable consequences. They have offered little critical comment on U.S. statements and policy up to this point, but they indicate that stronger statements of support or an outpouring of high-level U.S. sympathy for Patten could harden Chinese policy toward Hong Kong and could seriously escalate the confrontation over the colony. For the PRC, it would also call into question U.S. motives in dealing with China and reinforce the notion prevalent among some in China that the United States was working closely with Great Britain and others in the West to use various sources of leverage to weaken and ultimately bring down the Chinese communist system.

CHRONOLOGY

03/31/95 --- A legally required U.S. State Department report of Mar. 31, 1995, warned of potential uncertainties in Hong Kong's legal and political systems if greater Sino-British progress on these issues is not made prior to 1997; urged the two parties to seek agreement allowing the Hong Kong Legislative Council to continue in office after 1997, the setting up of a Court of Final Appeal, and the sorting out differences over an ambitious ship container project; and pointed to problems of media self-censorship and discontent in the civil service.

03/05/95 --- Municipal elections were held in Hong Kong.

02/26/95 --- The U.S.-China agreement on intellectual property rights avoided threatened bilateral trade sanctions that would have hurt Hong Kong's economy.

02/16/95 --- Some press reports in Hong Kong were critical of Beijing's recent request for the confidential personnel files of senior Hong Kong civil servants, arguing that such a request violates Beijing's repeated promises to grant a "high degree of autonomy" to the Hong Kong government.

02/06/95 --- The Hong Kong Chamber of Commerce said that threatened U.S. and PRC sanctions over their intellectual property rights dispute could cost Hong Kong as much as $1.1 billion annually.

01/07/95 --- Hong Kong officials said the territory's economy would be seriously affected if the United States followed through with threats to curb Chinese imports if Beijing did not meet U.S. intellectual property rights requirements by Feb. 4.

11/04/94 --- China and Britain reached agreement covering most financial arrangements for the $20 billion Hong Kong airport project.

09/18/94 --- Elections for District Board seats were held in Hong Kong.

08/31/94 --- China's National People's Congress (NPC) adopted a motion stating that Legco and other British democratic bodies in Hong Kong will be abolished when China takes over on June 30, 1997. It said an advisory body of the NPC, the so-called Preliminary Working Committee of the Preparatory Committee of the Hong Kong Special Administrative Region, will assume responsibilities for arrangements of Hong Kong's transition to Chinese rule.

06/29/94 --- Legco passed Governor Patten's reform bill.

--- A Sino-British agreement was reached on use of military sites in Hong Kong.

05/26/94 --- President Clinton announced that he was recommending the renewal of China's MFN status, "delinking" it from China's human rights record, and imposing an embargo on arms imports from China.

02/24/94 --- China announced it would dissolve Legco and Hong Kong's Municipal Councils and District Boards in 1997.

02/24/94 --- Patten proposed a second legislative package containing more controversial measures.

02/23/94 --- Legco passed the first of Patten's reform proposal bills.

05/28/93 --- President Clinton requested authority to renew China's MFN status for another year, but indicated that he would consider new human rights criteria in considering the MFN renewal in 1994.

12/09/92 --- Patten said that Hong Kong would be adversely affected unless the United States renewed MFN for China unconditionally.

12/08/92 --- President-elect Clinton stated that he hoped the United States can play a constructive role in relieving tensions and concerns in Hong Kong.

11/30/92 --- Chinese officials stated that all contracts, leases, and agreements signed or certified by the Hong Kong government without Beijing's approval would be invalid after 1997.

11/27/92 --- China said that it may not honor the contract for construction of Container Terminal #9.

11/11/92 --- Legco voted 32-21 to support Patten's reform proposals in general and promote further democracy in Hong Kong.

10/24/92 --- A Chinese official, Lu Ping, said that unless Patten withdrew his proposals, China would not, after 1997, honor any contracts awarded for the airport project, and would not permit flights originating from the airport to use Chinese airspace.

10/20/92 --- Patten went to Beijing for his first official visit to China.

10/07/92 --- Patten unveiled his plan for democracy in his inaugural annual Policy Address in Hong Kong.

07/10/92 --- Christopher Patten became the 28th Governor of Hong Kong.

09/91 --- Prime Minister John Major became the first Western leader to visit Beijing after Tiananmen Square. He made the trip to sign the Memorandum of Understanding on the Airport Project.

06/91 --- British and Chinese officials initialed a "Memorandum of Understanding" (MOU) on the new Hong Kong airport.

CHINA

In the 1980s, China emerged as an important supplier of arms to the Third World, in large measure due to agreements with Iran and Iraq during their war. The value of China's agreements with the Third World peaked at $5.8 billion in 1987. China ranked fifth among all suppliers in the value of its arms transfer agreements with the Third World from 1990-1993. Since the Persian Gulf War, the value of Chinese arms transfer agreements with developing nations has fallen dramatically, registering only $300 million in 1993 compared to $2.5 billion in 1990. China ranked sixth among all suppliers to the Third World in 1993 (in constant 1993 dollars)

China's arms transfer agreements with the Third World fell sharply after 1990 because Russia displaced China as Iran's preferred arms supplier. Iraq, another important Chinese client, was barred from arms purchases by the U.N. embargo after August 1990. Beyond the Near East region, China has not had many arms clients with large financial resources or major weapons purchasing programs. China seems ill-placed to sustain a high level of arms sales to the Near East region with stiff competition from suppliers such as Russia that can provide more modern and sophisticated weaponry.

Despite the overall decline in the volume of its arms transfers, China's missiles have been of continuing interest to certain Third World purchasers. In the latter half of the 1980s, China sold and delivered CSS-2 Intermediate Range Ballistic Missiles to Saudi Arabia, Silkworm anti-shipping missiles to Iran, and anti-tank and other surface-to-surface missiles to various purchasers in developing nations. China's willingness to abide by the guidelines on missile transfers set out in the Missile Technology Control Regime (MTCR) is ambiguous at best. China is especially sensitive to arrangements that it perceives infringe on its rights as an independent, sovereign, nation. With need to obtain hard currency, China's seems prepared to pursue arms sales opportunities it deems appropriate wherever they present themselves. China appears most reluctant to commit itself to an arms control regime that would undermine its ability to market military items or technology attractive to prospective buyers in developing nations.

Reprinted from Conventional Arms Transfers to the Third World, 1986-1993; by Richard F. Grimmett. Washington, Congressional Research Service, 1994. p. 8. (CRS Report no. 94-612 F, July 29, 1994)

DEBATE PROPOSITION -- RESOLVED: THAT THE UNITED STATES GOVERNMENT SHOULD SUBSTANTIALLY CHANGE ITS FOREIGN POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA

NATIONAL INTEREST AND U.S. FOREIGN POLICY

SUMMARY

The phrase "national interest" is used with increasing frequency in debates over U.S. foreign policy in the post-Cold War world. Neither the term "national interest" nor its usage in connection with foreign policy debates is new, but the current range of views as to what constitutes national interest and how it should be determined has increased sharply.

"National interest" as a concept dates back to the emergence of modern states in the 16th and 17th century. The Founding Fathers used it frequently in the late 18th century. In the 20th century, analysts of the term were divided between those who held that national interests were firm and could be objectively determined and those who felt that these interests change over time.

The first defined U.S. national interest was a desire to keep distant from involvement in European conflicts. Both Washington's "Farewell Address" (1797) and the Monroe Doctrine (1823) stated these goals. This meant, in practical terms, taking steps to secure (and expand) U.S. borders and to limit European involvement in the Western Hemisphere. The emergence of the United States as a world power in 1898 saw a shift to a national interest in the international *status quo*, which also required the maintenance of a balance of power in Europe and Asia -- despite a deep-rooted American antipathy to this concept. This basic interest remained constant, however, through the end of the Cold War.

The concept of national interest remains a highly individual and perceptual one, beyond the core interests of security and defense. Efforts by the Bush and Clinton Administrations to redefine U.S. national interests in the post-Cold War world have not been very successful. Doing so is more difficult in the late 20th century for a number of reasons:

- The U.S. public is somewhat weary of international involvement;
- It is more difficult conceptually to garner strong support for programs or policies crafted to support a favorable *status quo* when there are no evident major threats to it;
- It is also difficult to defend a *status quo* some of whose major strains and stresses come from relations with allies and friendly nations who share our broader values and perhaps interests;
- The President remains predominant in stating U.S. national interests, but this now involves greater consultation with Congress and more concern over public opinion. It also requires devoting attention to broader foreign policy issues rather than individual crises. Finally, to be successful, defining national interests requires some set of policies or programs to defend or advance these interests. All of this comes at a time when the domestic agenda is again predominant.

Reprinted from National Interest and U.S. Foreign Policy, by Mark M. Lowenthal. Washington, Congressional Research Service, 1994. 8 p. (CRS Report no. 94-783 S, Oct. 5, 1994)

NATIONAL INTEREST AND U.S. FOREIGN POLICY

INTRODUCTION

The phrase "national interest" is used with increasing frequency in debates over U.S. foreign policy in the post-Cold War world. Although neither the term "national interest" nor its use in connection with foreign policy debates is new, the current range of views as to what constitutes national interest and how it should be determined has increased significantly. This is a reflection of the more confusing and still-emerging post-Cold War international order, as well as the absence of a strong consensus as to the proper role that the United States should play internationally.

This debate over the future of post-Cold War U.S. foreign policy and U.S. national interests is unlikely to reach any firm consensus in the near future. Policy makers may find it useful as part of this ongoing debate to examine the origins and past use of "national interest" in U.S. foreign policy debates, and also the ways in which this concept has been and is being defined by policy makers in the Executive and Congress.

THE CONCEPT OF "NATIONAL INTEREST" AS USED IN FOREIGN POLICY

"National interest," under various guises and names, dates back to the emergence of modern states in the 16th and 17th centuries.[1] In the late 18th century, the Founding Fathers frequently referred to "the national interest" in their debates and discussions. The *Federalist Papers* have repeated references to this concept; it was also central to President Washington's discussion of foreign policy in his Farewell Address.[2]

Statesmen continued to use the concept during the 19th century, most famously in the words of Lord Palmerston, the British Foreign Secretary:

---

[1] See Beard, Charles A. *The Idea of National Interest.* (New York, 1934; reprinted by Greenwood Press, Westwood, CT, 1977), pp. 23-24. Some of the earlier terms used to express essentially the same concept were "will of the prince," "dynastic interests," or "*raison d'etat.*"

[2] *Ibid.*, pp. 33-39, 44. For the "Farewell Address," see Commager, Henry Steele, ed. *Documents of American History.* 9th edition. (Englewood, NJ, 1973), pp. 169-75, especially pp. 173-74. See also, Gilbert, Felix. *To the Farewell Address.* (Princeton, NJ, 1970), *passim*, which discusses the European intellectual antecedents of the concept as used by Washington.

> We have no eternal allies and we have no perpetual enemies. Our interests are eternal and perpetual, and these interests it is our duty to follow.[3]

It was during the mid-20th century, however, that the term "national interest" became a key component in debates over and analyses of foreign policy. Historians of the concept describe two broad groups of "national interest" analysts: (1) those who held that national interest was fairly constant and could be objectively determined; and (2) those who held that national interest changes as the values, preferences, etc. of the public change. Either view -- steadfast interests or changeable ones -- has been subject to rather severe limitations as an analytical tool given the absence of firm criteria or general agreement as to what these interests should be.[4] Nonetheless, "national interest" continues to be widely used in policy debates as a generally agreed upon notion, albeit undefined and subject to fairly broad differences of view.

NATIONAL INTEREST AND U.S. FOREIGN POLICY

The first great defined national interest in U.S. foreign policy was the desire -- if not necessity -- to be as far removed as possible from involvement in European conflicts during a period in which the nation was perceived as being vulnerable. This was a central point in the foreign policy portion of the Farewell Address.[5] This meant, in practical terms, taking steps to secure current U.S. borders and to limit European involvement in the Western Hemisphere.

---

[3] Palmerston said this in 1848, during the House of Commons debate over the Polish question.

[4] See Rosenau, James N. "National Interest," in David L. Sills, ed., *The International Encyclopedia of the Social Sciences* (New York, 1968), pp. 34-40, especially pp. 35-36. Hans J. Morgenthau (*Politics Among Nations: The Struggle for Power and Peace*, 1948; and *In Defense of the National Interest: A Critical Examination of American Foreign Policy*, 1951) is among the most cited of the first view. Richard C. Snyder (*Decision-making as an Approach to the Study of International Politics*, co-author, 1954), is among those holding the second view.

[5] Washington wrote:

> Europe has a set of primary interests which to us have none or a very remote relation....
>
> Our detached and distant situation invites and enables us to pursue a different course. If we remain one people, under an efficient government, the period is not far off when we may defy material injury from external annoyance;...when belligerent nations...will not lightly hazard the giving us provocation;...

See Commager, *Documents of American History*, p. 174.

There were two major initial manifestations of this national interest. First, there was a concentrated period of contiguous acquisition and expansion (1803-53). This expansion eliminated all proximate European colonies (except for Canada) and overran the northern portion of Mexico, resulting in borders that the United States acknowledged as permanent and pacific. Second, there was the promulgation of the Monroe Doctrine (1823), proclaiming the closure of the hemisphere to further colonization but also pledging not to interfere with existent colonies.

An important, albeit unspoken aspect of the Monroe Doctrine was the fact that U.S. ideology and values were not then seen as major spurs to national interests. Indeed, the American Revolution stands in stark contrast to the French and Russian Revolutions as being non-proselytizing. It was not until 1913, under President Wilson, that shared values or the imposition of U.S. political values became an important component of U.S. foreign policy. This component grew in significance during World War II and the Cold War, both of which had strong ideological components.

Abrogation of the second tenet of the Monroe Doctrine (non-interference with exiting colonies), by virtue of U.S. involvement in Cuba against Spain in 1898, also signalled the arrival of a profoundly different U.S. national interest. The removal of Spain from the hemisphere left only minor and more distant European colonies at a time when U.S. predominance and safety within the hemisphere was no longer in doubt. The acquisition of an overseas empire also marked the United States as both a world power and one with an acknowledged interest in the international *status quo*.[6]

This did not mean a dogged and static defense of all current global conditions. Indeed, maintaining a balance of power for prolonged periods usually requires changes in the *status quo*. For example, in the post-World War II period, the United States opposed reimposition of British and French rule over a number of colonies that had been overrun by Japan. The U.S. interest in the *status quo* meant an interest in the general balance of power in Europe and Asia. This interest was rarely stated overtly, as U.S. policymakers and politicians traditionally have eschewed the concept of a balance of power as something European and therefore alien, if not corrupt. However, such a balance and its preservation was, in essence, a key to U.S. interests and policy.[7]

---

[6] To some extent, this was not markedly different from the Monroe Doctrine, which sought to preserve the *status quo* in the Western Hemisphere and was based, in large measure, on the fact of a similar British interest and the implicit support of the Royal Navy.

A profound U.S. national interest in the preservation of the international *status quo* also ran counter to the U.S. preference to avoid involvement in "foreign" (*i.e.*, beyond the Western Hemisphere) conflict. Still, the United States intervened -- reluctantly -- in both World Wars and then undertook the prolonged and eventually global policy of containment against the Soviet Union.

The use of "national interest" during the World War II-Cold War period became somewhat confused by the concurrent and increased use of the parallel terms "national security" or "national security interest."[8] Despite the similarity, these latter terms are not seen as being identical with the broader concept of "national interest," of which national security is a part.

In the aftermath of the Cold War, the U.S. interest in preserving the *status quo* presumably has not changed. However, it becomes more difficult to envisage threats to the *status quo* on the scale of those encountered from 1917 to 1990, again reflecting the confusion between "national interest" and "national security." Thus, although preserving the *status quo* remains an interest, preserving it against "what" poses a vexing question.[9]

Initial efforts to review, if not redefine U.S. national interests in the aftermath of the Cold war have been limited. President Bush's "new world order" broke little new ground, restating the U.S. interest in international peace, security, freedom, the promotion of democracy and the rule of law.[10] Similarly, in presenting its new policy of "enlargement," the Clinton administration spoke of "protect[ing] American interests," without further defining them.[11]

---

[7] On the early roots of this changed emphasis in U.S. foreign policy, see Beale, Howard K. *Theodore Roosevelt and the Rise of America to World Power.* (Baltimore, 1956), pp. 336, 456-58; and Kissinger, Henry A. *Diplomacy.* (New York, 1994), pp. 38-40, 50. On the U.S. antipathy towards "balance of power" politics, see Kissinger, *Diplomacy*, 19-20, 51, 226. Kissinger, like many others before him, sees Theodore Roosevelt and Woodrow Wilson as representing the two opposite conceptual poles of U.S. foreign policy in the 20th century.

[8] On the origin and use of "national security" see Lowenthal, Mark M. *"National Security" as a Concept: Does It Need To Be Redefined?* Washington: Congressional Research Service. CRS Report No. 93-12 S, January 7, 1993. Intellectually, "national security" derived from a concern over potentially hostile control of Eurasia and the inevitable threat this posed to the United States, even at a distance, via economic means.

[9] See Sloan, Stanley R. *The U.S. Role in the Post-Cold War World: Issues for a New Great Debate.* Washington: Congressional Research Service. CRS Report No. 92-308 S, March 24, 1992. pp. 14-16.

[10] Sloan, Stanley R. *The U.S. Role in a New World Order: Prospects for George Bush's Global Vision.* Washington: Congressional Research Service. CRS Report No. 91-294 RCO, March 28, 1991, p. 21.

U.S. NATIONAL INTERESTS: ASSUMED OR DECLARED?

Nations rarely offer precise statements as to all of their national interests. Many are posited by the nation's very existence (external and internal security, safe borders, etc.) and do not need to be stated. It can be assumed that these are inherent to any state and are understood by all. Other interests, however, may require precise and public definition because they go beyond these shared core interests and very likely may involve territory, resources, people, values, etc. beyond the nation's borders.[12] This second set of interests is, in effect, nonexistent unless it is brought to the attention of other states. Without doing so, these interests may serve as a source of misunderstanding if not gross miscalculation.[13] Also, such public declarations may be more necessary in a democracy as a means of rallying support in the legislative branch and among the public.

The course of U.S. national interests outlined above follows this pattern. Washington and Monroe each publicly stated their views on U.S. national interests, although, during this period, the United States had few means to defend them. Indeed, the geographic separation from Europe and Europe's own internal rivalries were more important factors in securing these interests than was any nation's respect for U.S. interests or U.S. ability to defend them.

However, the longstanding U.S. interest in the international *status quo* that began in 1898 was more often unstated, in part for the philosophical reasons noted above. It only became an overt and publicly acknowledged interest with the formation of the containment strategy and all that followed from it (the

---

[11] Secretary of State Warren Christopher said that protecting American interests was the central purpose of U.S. foreign policy in a speech at Columbia University on September 20, 1993, which was reprinted in the *Congressional Record*, September 20, 1993, p. S11964. See also Lowenthal, Mark M. *The Clinton Foreign Policy: Emerging Themes*. Washington: Congressional Research Service. CRS Report No. 93-951 S. pp. 2, 9.

[12] Among the distinctions that have been made between types of national interests are: Vital vs. Secondary; Permanent vs. Temporary; Specific vs. General; Complementary vs. Conflicting. Obviously, any national interest is likely to exhibit at least two, if not more, of these traits at any given time. See Roskin, Michael G. *National Interest: From Abstraction to Strategy*. (U.S. Army War College; Carlisle, PA; May 20, 1994) pp. 6-8.

[13] A classic example was Britain's failure in 1914 to make clear to Germany the strong British interest in Belgium's neutrality, thus contributing to an already confused and rapidly deteriorating diplomatic situation. Some German decisionmakers did not believe that Britain would go to war for "a mere scrap of paper" -- *i.e.*, the 1839 treaty establishing a neutral Belgium.

Truman Doctrine, the Marshall Plan, NATO) during the early years of the Cold War.

WHO DEFINES NATIONAL INTEREST?

Although the creation of U.S. foreign policy is shared by the Executive and Congress, the predominance of the President has meant that the Executive has largely been the source of defining national interest. The Executive has the inherent advantage of speaking with fewer (although not always one) voices in foreign policy than the Congress. Although Congress has many levers with which to influence foreign policy, only the President is seen as "speaking for the United States."[14]

Arguably, the primacy of the President's role has become more difficult in the 20th century. Washington's Farewell Address was, in part, a plea to avoid partisan wrangling over foreign policy; Monroe was addressing foreign powers more than the American population. U.S. interests in the two World Wars became evident to most people only over time. Moreover, U.S. policies were in part dictated by the actions of others (Germany's 1917 policy of undeclared submarine warfare, and Japan's attack in 1941).

The early prosecution of the Cold War stands out as a very different example, in that the threat was not as obvious or direct as were the two World Wars, and yet it required a massive mobilization of resources abroad and at home. Indeed, it could be argued that defining a national interest is meaningless if not dangerous unless there is also a plan for advancing or defending that interest. Thus, it becomes a two-fold process, involving: (1) defining the interest and defending it conceptually in public policy debates; and (2) implementing programs by which the defined interest is given shape and support. This also involves public debate as well as a legislative program. There is also a reverse effect, especially in democracies, as declared or generally accepted national interests tend to serve as a barometer of public opinion as well.[15]

U.S. NATIONAL INTEREST IN THE POST-COLD WAR WORLD

The international *status quo* is, arguably, more favorable to the United States today than it has been since prior to the outbreak of World War I. The trend toward more nations that seek to be democratic and to have some version of free market economies represents not only a victory for U.S. values but also the basis of a world that is presumably less hostile to U.S. interests.[16]

---

[14] Presidents have taken actions regarding fairly well-agreed national interests that have run contrary to the popular sentiment. Two pertinent examples are: (1) President Cleveland's refusal, in 1893, to annex Hawaii following a coup led by Americans, despite widespread support in the United States for annexation; and (2) President McKinley's initial reluctance, in 1898, to succumb to the pressure in favor of war with Spain.

[15] I am indebted to Robert G. Sutter, Senior Specialist in International Affairs, CRS, for this concept.

At the same time, the end of the Cold War has seen a reversion to political issues that have long been problematic in the past, especially ethnic conflict, albeit on a more widespread basis, occurring in Europe, Africa and parts of what was the Soviet Union. There are also greater internal and external economic tensions within the group of stable democracies. Policy makers tend to list other issues -- that tend to be transnational or subnational, such as terrorism, proliferation, ecology, health concerns -- but, while problematic, these tend not to threaten the broader *status quo*.

As noted, both the Bush and Clinton Administrations have evidently felt that U.S. national interests needed to be redefined in the aftermath of the Cold War, albeit with limited success in both cases. In the absence of some broad, easily grasped concept, the debate over U.S. post-Cold War national interest has been held over the individual areas of engagement -- successfully in the Gulf War, ultimately unsuccessful in Somalia, and diffidently in Rwanda and Haiti. It could be argued that it is much more difficult to have a meaningful debate over individual engagements when the larger framework remains so uncertain.

To a very great degree, the concept of national interest remains a highly individual and perceptual one, beyond those core interests of security and defense. As noted, in the past, U.S. national interests have largely been defined by successive Presidents, with remarkable consistency and few changes over 200 years. Doing so is more difficult in the late 20th century for a number of reasons:

- The U.S. public is somewhat weary of international involvement after over half a century of both involvement and leadership, from World War II through the end of the Cold War.
- It is more difficult conceptually to urge strong support for a favorable *status quo* when there are no evident major threats to it, and when there continues to exist a deep-rooted American antipathy to the concepts of the *status quo* and balance of power.

---

[16] According to National Security Adviser Anthony Lake (speech at Johns Hopkins University, Nitze School of Advanced International Studies, September 21, 1993), this is based on the belief that

> ...democracies tend not to wage war on each other or to sponsor terrorism. They are more trustworthy in diplomacy and do a better job of respecting the human rights of their people.

See *Congressional Record*, September 29, 1993, p. E2294.

This view about the more pacific nature of democracies towards one another first became popular in policy debates during the Bush Administration.

- It is also difficult to defend a *status quo* some of whose major strains and stresses come from relations with allies and friendly nations whose broader values and perhaps interests are not very different from our own.

- Although the President remains predominant in stating U.S. goals and national interests, this involves greater consultation with Congress and more concern over public opinion than was the case during the early years of the Republic. It also requires devoting attention to broader foreign policy issues rather than individual crises. Finally, to be successful, defining national interests requires some set of policies or programs to defend or advance these interests. All of this comes at a time when the domestic agenda is again predominant.

Testimony for
The Senate Foreign Relations Committee
Asia and Pacific Subcommittee
March 8, 1995

Winston Lord
Assistant Secretary
East Asian and Pacific Affairs
Department of State

Introduction:

Mr. Chairman, thank you very much for the invitation to speak before the Asia and Pacific Subcommittee of the Senate Foreign Relations Committee. Before I begin, may I extend congratulations to Ambassador Barshefsky, Ambassador Kantor and the entire negotiating team for the firm and principled way they conducted extremely difficult negotiations which ultimately yielded an excellent IPR agreement. I am very pleased to have this opportunity to sketch out in broad terms how the IPR Agreement Ambassador Barshefsky has just described for you fits into our overall strategy of "comprehensive engagement" with China.

This Administration, and we at the State Department, are committed to working closely with you in order to shape a strong bipartisan policy that will advance our broad spectrum of interests in China.

BEST COPY AVAILABLE

A Diverse and Complex Relationship:

Since we established formal diplomatic relations with the People's Republic of China in 1979, the scope of our ties with the world's most populous country has expanded significantly. Two countries with international interests and influence as extensive as ours must be engaged with each other on a very broad range of issues, in the interest of long-term regional and global peace, prosperity, and security. The IPR Agreement is the most recent demonstration of the complexity of this relationship, and its increasing importance.

Pursuing the interests of the United States is of course the fundamental premise of our China policy. We have just advanced our interests in the IPR negotiations. In trade and other areas, we must apply this yardstick in addressing the entire constellation of bilateral, regional and global concerns in which our countries' interests intersect.

Comprehensive Engagement:

It is in this context that this Administration developed and the President approved a strategy of "comprehensive engagement" with China. The purpose of this strategy can be simply stated:

- to pursue all of our interests at the levels and intensity required to achieve results;

- to seek to build mutual confidence and agreement in areas where our interests converge; and

- through dialogue, to reduce the areas in which we have differences.

In short, we bear in mind that, as the President has stated, the U.S. national interest is served by maintenance of friendly relations with a China that is strong, stable, prosperous and open.

We sometimes hear sincere criticism that this policy approach can lead to apparent inconsistencies, misperceptions, and skewing of what should be our top priorities. There are those who contend with passion and conviction -- which we understand and fully respect -- that if China fails to address our concerns on a particular issue, then we should put our other interests and objectives on hold until we have seen progress.

This Administration believes, however, that in dealing with a country as large and as important as China, it is essential to continue pushing our interests forward on as many fronts as possible. In areas where the two countries' interests conflict, the going may often be slow. But there are also many areas where U.S. and Chinese interests are complementary and where constructive cooperation between us produces significant benefits for both countries, and also contributes to regional and global peace and security.

Human Rights:

Our attention is often focused, quite naturally, on areas of obvious disagreement. The human rights issue is a case in point. This Administration and the American people remain extremely concerned with China's continued failure to meet internationally-accepted standards on human rights, including norms that have been recognized by Beijing itself -- for example, in the Universal Declaration of Human Rights.

When the President decided last year to de-link human rights from MFN, he made it clear that de-linkage represented a shift in the tools we will employ to achieve progress on China human rights issues -- it did not represent a shift from the

Administration's continued stress on human rights. This stress has been clear in Geneva, for example, where we have joined the European Union, Japan and others in a concerted effort at the U.N. Human Rights Commission to put the spotlight on China's human rights abuses.

We are likewise pressing a bilateral dialogue with China on human rights issues, addressing such areas as prisoner releases, Tibet, and visits by international humanitarian organizations to Chinese prisons. We have begun to discuss with the Chinese how we can help to strengthen legal reform efforts in China, and the establishment of a stronger judicial system. Supreme Court Justice Kennedy's recent visit to China was very helpful in this regard.

Improvement in Chinese human rights practices is an essential element of our China policy and, indeed, of our efforts to achieve a stable long-term U.S.-Chinese bilateral relationship. That is why Administration officials visiting China without exception raise our human rights concerns. And it is why concentrated attention to our human rights agenda remains a central aspect of our "comprehensive engagement" strategy.

Our Broad Goals in Economics and Trade:

Our increasingly important economic and trade relations with China are another key aspect of this "comprehensive engagement" strategy. Ambassador Barshefsky has just described for you the recent round of very tough negotiations on the protection of intellectual property rights. Just two months ago, we and many of China's other trading partners, large and small, participated in a separate, but equally grueling, talks related to China's accession to the World Trade Organization.

The IPR and WTO negotiations must also be viewed in the context of our broader strategy of "comprehensive engagement." In economics and trade, this strategy has two key elements:

o First, we seek to fully integrate China into the global, market-based economic and trading system. China's participation in the global economy will nurture the process of economic reform and increase China's stake in the stability and prosperity of East Asia.

- Second, we seek to expand U.S. exporters' and investors' access to the Chinese market. As China grows and develops, its needs for both goods and services imports will grow even more rapidly. This market represents a very important opportunity for U.S. firms and workers.

Clearly, the IPR Agreement contributes directly to our efforts to develop commercial opportunities for U.S. firms in China and elsewhere. In bringing China closer to international norms in this area, the IPR agreement also promotes China's eventual integration into the global, market-based economic and trade system.

The IPR agreement could also help to generate momentum for further progress on China's accession to the WTO. The negotiations demonstrated that, when all sides are determined to seek mutually acceptable solutions through serious and detailed talks, agreement is always possible. We hope that this pattern will be applied with equal success in China's WTO accession process.

The IPR agreement is a large step forward; but many other important substantive issues remain to be resolved in order to complete the WTO accession process. Here, too, much will ultimately depend on China's willingness to accept the basic obligations of the WTO system.

At the same time, we continue to pursue our "comprehensive engagement" strategy in other aspects of our economic relations with China. Recently, for example, we have concluded agreements with China on textiles and satellite launches. This year, we will be engaged again in talks on market access, civil aviation, export financing, and a variety of other commercial issues.

We also continue to expand our export promotion efforts - one of the central responsibilities of what Secretary Christopher refers to as our "America Desk" - and cooperative programs in scientific and technical fields. For example, during Secretary O'Leary's visit to China two weeks ago, we not only witnessed the signing of commercial agreements that will facilitate billions of dollars in new U.S. exports, but also established the framework for scientific, technical and economic cooperation in developing China's sustainable energy development program. Secretary Brown's visit to China last August was equally successful in helping to build long-term economic and business ties between China and the United States.

Our Security Interests:

An increasingly powerful China will be a central factor in the stability of the Asia-Pacific region. Indeed it will play an important role in global security given its permanent seat in the United Nations Security Council, its possession of nuclear weapons, and its military exports.

Thus we also seek to gradually develop our exchanges with Beijing in the security field. Under Secretary Perry's leadership we have launched a careful program of military exchanges and defense conversion cooperation. This is designed to promote greater transparency about China's intentions and strategies, establish ties with an important sector in China, and contribute to progress on the non-proliferation front.

At the same time, we are seeking to integrate China in the Asia-Pacific Security realm. We have welcomed its participation, and are working with it, in the Asian Regional

Forum and Northeast Asia Security dialogue. Moreover, we have closely coordinated on some regional security issues. Beijing has played a generally constructive role on Korea. It has ceased assistance to the Khmer Rouge and is dealing with the elected government of Cambodia. Its role in the South China Sea will be critical.

Finally the control of weapons of mass destruction is a key agenda item with the Chinese. There is unfinished business with respect to China's adherence to the Missile Control Technology Regime. Chinese military exports in certain other areas remain worrisome. There are grounds for hope that China will support the indefinite extension of the Non-proliferation Treaty and a Comprehensive Test Ban Treaty, though we oppose China's continued nuclear tests in the meantime.

Conclusion:

Mr. Chairman, China is a large, populous, militarily powerful and economically significant country whose influence in the world cannot but increase. China's policies, attitudes and actions will have an impact upon a broad range of U.S. interests, including those in the political, security, non-proliferation and human rights areas, as well as in economic and commercial affairs. Managing this complex relationship will require sophistication, patience, much hard work, and a steady vision of our long term interests. Given our different perspectives, we must be prepared for inevitable rough patches in our relations.

Against this backdrop, we believe that the President's strategy of "comprehensive engagement" is the best way of furthering the broad range of U.S. interests in China, East Asia, and the world. We hope that our approach will enjoy broad bipartisan support in the Congress.

Thank you.

CHINA IN WORLD AFFAIRS -- U.S. POLICY CHOICES

SUMMARY

Backed by impressive economic growth and steadily increasing military power, China's international influence has grown substantially in recent years. This poses a set of U.S. policy questions markedly different than a few years ago when China's leaders appeared as an isolated and troubled regime following the suppression of pro-democracy demonstrators at Tiananmen Square in 1989.

In many important respects, Chinese leaders since the late 1970s have followed generally pragmatic policies that have integrated China's economy more closely with the rest of the world. The result has been a foreign policy seeking greater economic advantage in order to improve the material standard of living of the Chinese people and to increase support for continued Chinese communist rule. Seeking economic advantage has prompted Chinese leaders to be more flexible than in the past on differences with neighbors and to curb action disruptive to the prevailing status quo in Asian and world affairs.

Although optimists judge that China's growing economic and military power will be moderated by an ever widening web of international interdependence, skeptics suspect that greater power will allow Beijing to be more assertive in backing nationalistic, territorial or other demands. Of course, actual Chinese policy could turn out to be moderate on some issues (e.g. trade disputes) and more assertive on others (e.g. territorial disputes). Political and economic developments inside China will partly determine whether Beijing follows an accommodating or assertive foreign policy. Determinants outside China include the important role U.S. policy plays in influencing Chinese behavior.

There is general agreement in the United States that Washington should use its influence to encourage Beijing to conform to international norms, and over time to foster changes in China's economic, political and security policies compatible with U.S. interests. At the same time, there remain major differences among three general approaches followed by U.S. officials and others as to how to achieve these objectives.

As a result, U.S. policy is likely to continue to develop case-by-case, sometimes accommodating Beijing, sometimes pressing Beijing to change its policies, and sometimes working toward a fundamental change in the Chinese government system. Effective U.S. policy will probably require careful, case-by-case weighing of the importance of issues for U.S. interests, U.S. leverage over China, the position of U.S. allies and associates, and the sensitivity of the issue to the PRC.

Reprinted from China in World Affairs -- U.S. Policy Choices, by Robert G. Sutter. Washington, Congressional Research Service, 1995. 19 p. (CRS Report no. 95-265 S, Jan. 31, 1995)

CHINA IN WORLD AFFAIRS -- U.S. POLICY CHOICES

INTRODUCTION

The Clinton Administration's decision in May 1994 to "delink" U.S. most-favored nation (MFN) tariff treatment for China and Beijing's authoritarian human rights practices temporarily eased but did not end the debate in the United States over China policy. Within the Clinton Administration, officials were in general agreement that the United States favored a "strong, stable, prosperous and open" China, but they continued to disagree when one U.S. objective (e.g. Chinese economic and political openness) would come into conflict with another (e.g. stability). By the end of 1994, however, the previous wide ranging differences within the Administration were narrowed as President Clinton and his advisers pursued "engagement" with Beijing, especially in commercial and defense relations. Prominent examples of such U.S. engagement were the widely publicized visits to Beijing by Commerce Secretary Brown (September 94) and Defense Secretary Perry (October 1994).[1]

Just as the Administration was settling on its China policy, the 1994 congressional elections brought forth the Republican led 104th Congress. Observers judged that the Republican congressional leaders seemed more likely than their predecessors to question the Administration's emphasis on "engagement" and to adopt more assertive U.S. policies vis-a-vis Beijing on such sensitive issues as Taiwan, Tibet, arms proliferation and human rights.[2]

U.S. policymakers seek an appropriate U.S. strategy to deal with China's growing role in world affairs. Backed by its impressive economic growth and rapid ascendancy in international trade and investment, Beijing's international influence has grown markedly in recent years. The People's Republic of China (PRC) bears little resemblance to the seemingly isolated regime that suppressed with force pro-democracy demonstrations in Chinese cities in 1989. Chinese officials have been successful in boosting Beijing's stature with all of their neighbors. Western powers compete avidly for economic opportunities on the mainland.

---

[1] For background, see CRS Issue Brief 94002 U.S.-China Relations, Sutter, Robert and Dumbaugh, Kerry.

[2] This report benefitted from a careful review of materials on U.S. China relations appearing in the Western and Chinese press, journal articles, and interviews with over a dozen U.S. experts in and out of the U.S. Government. Those consulted for the project who can be mentioned by name include A. Doak Barnett, Richard Bush, Thomas Elmore, Banning Garrett, Bonnie Glaser, Paul Godwin, Robert Kapp, Donald Keyser, Thomas McNaugher, Ronald Montaperto, Roxane Sismanidis and Ming Zhang.

Many in Asia and abroad are suspicious of Beijing's steadily increasing defense expenditures and its sometimes assertive, nationalistic rhetoric and other actions over contested territory or other issues. China's defense buildup seems particularly disturbing because unlike in the past when either the U.S. or USSR used military-backed power to help to "contain" China, there is no such superpower effort to confront China's emerging power today. Of course, the United States remains militarily active in East Asia and many regional states (e.g. Japan, India, the Koreas, Vietnam, Indonesia) have important military power of their own. China's neighbors and major trading partners have not allowed their sometimes deep-seated anxiety over the Chinese defense buildup to impede the smooth development of relations with the communist authorities in Beijing. In general, they are encouraged by Chinese foreign policy behavior in the post-Mao era which has been markedly more pragmatic than in the past. They also tend to expect, wisely or not, that China's rapidly increasing economic interaction with others will promote greater social, and perhaps eventually political, pluralism at home and a greater sense of economic interdependence abroad.[3]

To assist U.S. policymakers as they decide on an appropriate U.S. strategy regarding China's role in world affairs, this report:

- Reviews the evolution of Chinese foreign policy.
- Assesses the prospects of Beijing's foreign policy over the next 5-10 years.
- Examines the role the U.S. plays in China's foreign policy and options for the U.S. to use that role to move Chinese behavior in directions favored by the United States.

[For those already familiar with or not interested in the evolution of Chinese foreign policy, please turn directly to "Assessment and Prospects on page 11.]

---

[3] See, among others, Sutter, Robert, et. al., China As A Security Concern In Asia, CRS Report 95-46S, December 22, 1994, 26 p.

EVOLUTION OF CHINA'S ROLE IN WORLD AFFAIRS[4]

Under the leadership of Mao Zedong, China executed some wide swings in foreign policy behavior. During the 1950s, Mao charted a pro-Soviet, anti-U.S. foreign approach; in the 1960s, China shifted to a posture antagonistic to both superpowers; and in the 1970s, Mao sanctioned a realigning of China toward a rapprochement with the United States in opposition to perceived Soviet expansion. Throughout this period, Chinese leaders under Mao mixed hard and soft tactics in foreign affairs in ways that showed a strong willingness to threaten or use force in order to seek advantage or to respond to perceived encroachment or pressure from outside. China cultivated the image of an aggrieved "have not" power determined to struggle to change the world--at least over a period of time. Beijing supported revolutionary political movements and gave arms and training to radical insurgencies directed against established governments.

Outside analysts were able to discern core goals in Chinese foreign policy notably involving support for the security of the Chinese state and its Communist Party leadership; development of China's wealth and power; and China's strong desire to stand strong and independent in world affairs. Nevertheless, the frequent shifts in priorities and tactics sometimes caught Chinese leaders unaware or unresponsive, leading to leadership confusion and conflict. Domestic politics would on occasion spill over into Chinese foreign policy, leading to sometimes serious leadership foreign policy debates. Perhaps the most graphic example of the latter occurred in the mid-late 1960s, during the most violent phase of the Cultural Revolution. This period saw a collapse of Chinese foreign policy, amid a broader collapse of Chinese government and party institutions, reflecting the life-and-death struggle for power then underway among the senior leaders in China.

The internal chaos of this stage of the Cultural Revolution was matched by the bankruptcy of Maoism in foreign affairs. Chinese stridency had alienated Beijing from most foreign support while placing it in direct opposition to the United States, then deepening its military involvement in Indochina; and the USSR, then building its military power along China's northern border as a defense and possible lever to press China. The 1969 Sino-Soviet border conflicts brought China to the brink. Chinese security was more endangered than at any time since the Korean War, and arguably since the establishment of the PRC.

---

[4] Among the many useful reviews of Chinese foreign policy and behavior in this period see Barnett, A. Doak, *China and the Major Powers in East Asia*, Brookings, 1977; Harding, Harry (ed.), *China's Foreign Relations in the 1980s*, Yale, 1984; Dreyer, June Teufel (ed.), *Chinese Defense and Foreign Policy*, Paragon House, 1989; Harding, Harry, *A Fragile Relationship: The United States and China Since 1972*, Brookings, 1992; Kim, Samuel (ed.), *China and the World*, Westview, 1993; Sutter, Robert, *Chinese Foreign Policy.- Developments After Mao*, Praeger, 1986; Hao, Yufan and Huan, Guocang (eds.), *The Chinese View of the World*, Pantheon, 1989; Whiting, Allen (ed.), *China's Foreign Relations*, the Annals, January 1992, and Garver, John W., *Foreign Relations of the People's Republic of China*, Prentice Hall, 1993.

Adroitly maneuvering to save China in this time of danger, while saving himself from leadership adversaries who ultimately perished in the struggle for power at this time, Premier Zhou Enlai and close associates laid out and followed a more pragmatic, less ideologically driven plan for Chinese foreign policy. Subsequent leaders, notably Deng Xiaoping, established workable domestic development strategies that drew on market energies and served to reinforce the trend toward relative pragmatism, moderation and continuity in Chinese foreign policy behavior.

Toward Greater Pragmatism in Chinese Foreign Policy, 1969-1989

China's relationship with the superpowers and especially the Soviet Union remained at the heart of Chinese foreign policy through much of this period. In particular, Soviet power repeatedly impeded both China's efforts to expand its influence in Asian and world affairs, and its ability to secure China's broader foreign policy goals of security, independence and development.[5]

1969-1976. During this period, China was only beginning to emerge from the violent domestic conflict and international isolation caused by the Cultural Revolution. The Soviet military buildup and the Sino-Soviet border clashes prompted a major reassessment in Chinese foreign policy that focused on countering the Soviet threat to Chinese security. As the United States was pulling back militarily from Asia under terms of the Nixon doctrine, Beijing saw an opportunity to work with this former adversary against Soviet pressure in Asia.

It also used the opening to the U.S. to support China's broader effort to gain greater international recognition. The PRC entry into the UN in 1971 was a high point in this effort. The U.S.-PRC agreement in the Shanghai communique signed during President Nixon's visit to China in 1972 said that both sides opposed the efforts of a unnamed third party (the USSR) to establish "hegemonism" in Asia. Subsequently, Beijing broadened the scope of this understanding to encourage world-wide efforts to block the expansion of what China called "Soviet hegemonism." China was sharply critical of any moves by the United States or others that it perceived as efforts to accommodate Soviet expansion.

China was generally supportive of the gradual U.S. withdrawal from Vietnam set under terms of the Paris peace accord signed in January 1973, but it was alarmed by the rapid collapse of pro-U.S. regimes in South Vietnam and Cambodia in 1975. Beijing saw a particular danger that expanding Soviet power and a unified Vietnam would fill the power vacuum left by the United States.

---

[5] This analysis draws heavily from Sutter, Robert, *Chinese Foreign Policy in Asia and the Sino-Soviet Summit: Background, Prospects and Implications for U.S. Policy*, CRS Report 89-298F, May 15, 1989, p. 7-11.

Chinese pronouncements encouraged the United States to remain actively involved militarily, economically, and politically in Asia and pointedly warned Asian countries to beware of Soviet efforts to fill the vacuum created by the U.S. pullback.

The basis of the Sino-U.S. accommodation that emerged during this period was restricted largely to strategic factors. Because of ongoing leadership struggles, China remained unwilling to break away from Maoist development policies emphasizing Chinese "self reliance." China also remained very cautious in developing educational, cultural and technical contacts with the outside world that might be called into question by the ideologically rigid members of the so called "gang of four"--Maoist radicals who had significant influence over policy at this time.

1976-1980. The period began with the death of Mao, the purge of the Maoist "gang of four," and the rehabilitation of more pragmatic leaders led by Deng Xiaoping. Deng and his reform-minded colleagues began a major economic and political reform effort designed to end the ideological struggles of the past and to improve the material well-being of the Chinese people.[6] In foreign affairs, they broadened the basis of China's interest in contacts with the West and the rest of the developed world from continued common anti-Soviet strategic concerns to include greater economic, technical, and other exchanges.

Chinese foreign policy supported China's new quest to achieve economic modernization as effectively as possible. It did so by helping to promote economic contacts with various countries that could benefit China's modernization; and by helping to maintain a stable and secure environment in Asian and world affairs that was conducive to Chinese modernization efforts. In this context, Chinese leaders put aside past ideological, political and other constraints to beneficial economic and technical interchange with a wide range of developed and developing countries. They halted or cut back support to Maoist insurgents or political groups that would impede smooth economic exchanges abroad; cut back sharply on Chinese foreign assistance to the third world; and showed an increased willingness to softpedal past Maoist pretensions to change the world.

Chinese leaders focused their foreign policy concerns on establishing a "peaceful environment" around China's periphery in Asia. China did not control the environment, which remained more heavily influenced by the Soviet Union, the United States, their allies and associates. China continued to see the main danger of instability and adverse development in Asia coming from the Soviet Union or its allies and associates. Thus, Beijing was particularly concerned by the Soviet-Vietnamese strategic alignment that allowed Vietnam in late 1978 to invade Cambodia, overthrow the Chinese-backed Khmer Rouge regime there, and successfully resist the subsequent Chinese military incursion into Vietnam.

---

[6] The political reforms fell notably short of political pluralism or democracy as there remained strong measures to prevent dissent from emerging as a serious challenge to the regime.

The economic and strategic imperatives noted above underlay China's decision to normalize diplomatic relations with the United States in 1978; the signing of the China-Japan peace treaty in 1978; and China's highly vocal effort at this time to encourage a world wide "anti-hegemony front" to contain the expansion of the Soviet Union and its proxies in Asia and elsewhere in the Third World. As it was in the previous period, Beijing was especially critical of perceived efforts by the United States or others in the West to accommodate or "appease" Soviet or Soviet-backed expansion in the interest of U.S.Soviet arms control or other concerns. And it was supportive of a continued strong effort by the United States and its allies to maintain a firm military and diplomatic position against Soviet expansion in Asia and elsewhere.

In the 1980s, Chinese leaders were generally pleased by the strong U.S.-led international response to the Soviet invasion of Afghanistan in December 1979. The election of Ronald Reagan and the buildup of U.S. military strength in the early 1980s were seen by Beijing as complementing similarly strong efforts against Soviet expansion by U.S. allies in Europe and Asia. As a result, China came to view Soviet expansion as held in check for the first time in over a decade--a trend that Beijing judged was likely to continue to pose difficulties for a USSR leadership already preoccupied with problems including leadership succession and deepening economic malaise.

Meanwhile, Chinese leaders began to reassess their close alignment with the United States in light of candidate Reagan's strong statements of support for Taiwan. In response, Beijing opted in 1981-1982 for a more "independent" posture in foreign affairs that struck a favorable political chord in China and among Third World countries deemed important to China.

Leonid Brezhnev and subsequent Soviet leaders were unwilling to compromise in reducing Moscow's military forces around China's periphery or in reducing support for Asian countries, like Vietnam and India, that served as local counterweights to Chinese influence. In this context, Chinese leaders clearly recognized the importance of their newly developed economic ties with the United States. As a result, after two years of political crisis in U.S.-PRC relations that saw tough negotiations and public disputes with the Reagan Administration over U.S. arms sales to Taiwan and other issues, Chinese leaders set limits on China's independent foreign posture. They compromised on heretofore sensitive bilateral disputes with the United States and consolidated ties with the United States during President Reagan's visit to China in 1984. The Reagan Administration facilitated this change by increasing the flow of U.S. technology to China and by softpedaling public references to differences with Beijing over Taiwan and other issues.

In the mid-1980s, with the rise to power of Mikhail Gorbachev and his reform-minded colleagues in the Soviet Union, China and the Soviet Union moderated past differences and appeared determined to improve political, economic and other relations. Leaders of both sides focused on problems of internal economic development and related political reform, and both were interested in fostering a stable, peaceful international environment conducive to such reform. Sino-Soviet ideological, territorial, and leadership differences of the past were less important. The two sides remained divided largely over competing security interests in Asia. Gorbachev began to meet Chinese interests in this area by starting to pull back Soviet forces from Afghanistan, Mongolia, and other places around China's periphery. Concurrently, Chinese military planners began to revise China's strategic plans. They downgraded the danger of Soviet attack and allowed for a major demobilization of Chinese ground forces.

The Soviet initiatives also dulled Chinese interest in cooperating closely with the United States and its allies and associates in Asia to check possible Soviet expansion or for other reasons. China's growing need for close economic and technical ties with these countries compensated to some degree for the decline in Chinese interest in closer security ties with them. Chinese leaders also wished to improve relations with the Soviets in order to keep pace with the rapid improvement of Gorbachev's relations with the United States and Western Europe. Otherwise, Chinese leaders ran the risk of not being considered when world powers decided international issues important to China.

The United States and its allies also found the Soviet Union more accommodating of Western interests, and they were able to make greater progress than in the past in dealing with issues affecting Western security concerns. The change in Soviet policy thereby reduced the perceived U.S. need to sustain and develop close strategic cooperation with China against the USSR. Some analysts also judged that the United States saw that economic interchange with China was of insufficient importance to compensate for the reduced anti-Soviet strategic cooperation, even though China remained important for Asian security and international arms control. And, as a result, longstanding bilateral and other irritants in U.S.-China relations over human rights, treatment of intellectuals and Tibet, appeared to take on more prominence in Sino-U.S. relations.[7]

Foreign Policy After Tiananmen[8]

The sharp international reaction to China's harsh crackdown on dissent after Tiananmen caught Chinese leaders by surprise. They reportedly had expected developed countries to move relatively swiftly back to China after a few months, but they had not counted on the rapid collapse of Communism in

---

[7] See review in Harding, A Fragile Relationship, *op. cit.*, p. 173-2

[8] Among useful analysis of this period see Vasey, Lloyd, "China's Growing Military Power and Implications for East Asia, *Pacific Forum CSIS*, August 1993; Zhang, Ming, "China and Its Major Power Relations," *The Journal of Contemporary China*, Fall 1994; McNaugher, Thomas, "A Strong China: Is the U.S. Ready?," *Brookings Review*, Fall 1994; Cossa, Ralph, "China and Northeast Asia: What Lies Ahead,? *Pacific Forum CSIS*, February 1994; Chong-pin, Lin, "China Military Modernization: Perceptions, Progress and Prospects," *Security Studies*, Summer 1994; McNamara, Robert, *et. al*, *Sino-American Military Relations: Mutual Responsibilities in the Post-Cold War Era*, National Committee on U.S.-China Relations, November 1994.

Eastern Europe and the subsequent march toward self-determination and democratization throughout the Soviet empire, leading to the end of the USSR by 1991. Taken together, these unexpected events diverted the developed countries from returning to China with advantageous investment, assistance, and economic exchange; reduced China's strategic importance as a counterweight to the USSR; and posed the most serious challenge to the legitimacy of the Chinese Communist regime since the Cultural Revolution.

In response, Beijing used foreign affairs to demonstrate the legitimacy and prestige of its Communist leaders. High-level visits, trade and security agreements and other foreign policy means were used to enhance Beijing's image before skeptical audiences at home and abroad. As time went on, Chinese leaders managed to reestablish political stability. To do this, Chinese leaders gave higher priority to the resource needs of the military and public security forces. Meanwhile, economic growth began to accelerate sharply, especially in southern and coastal regions.

Recognizing the inability of communist ideology to support their continued monopoly of power, leaders in Beijing played up more traditional themes of Chinese nationalism to support their rule. Thus, U.S. and other criticisms of the communist system in China were portrayed not as attacks against unjust arbitrary rule but as assaults on the national integrity of China. They were equated with earlier "imperialist" pressures on China in the 19th and 20th centuries.[9]

Meanwhile, Deng Xiaoping's initiative in early 1992 forced other PRC leaders out of their hesitant approach to economic modernization after Tiananmen. Deng's call for faster growth and less impeded economic interchange with the outside world coincided with the start of an economic boom still underway on the mainland. Double digit annual growth rates caused inflation, dislocation and numerous social problems, but they clearly caught the attention of the outside world. Many of China's well-to-do neighbors like Hong Kong and Taiwan had already positioned themselves well in the post-Tiananmen period to take advantage of the rapid growth. They were followed rapidly by Western European and Japanese visitors and traders. U.S. business interest in the China market grew markedly from 1992 to 1994 and was credited with playing an important role in forcing the shift in Clinton Administration policy linking U.S. MFN treatment and China's human rights conditions.[10]

On specific issues in foreign affairs, Chinese leaders generally adhered to the logic underlying the pragmatic trend in Chinese foreign policy seen in the post-Mao period:

---

[9] Discussed among others at an international forum on U.S.-Chinese relations, Woodrow Wilson Center for Scholars, Washington, D.C., November 7, 1994.

[10] See among others *U.S.-China Relations*, CRS Issue Brief 94002 (updated regularly).

- Post-Mao Chinese communist leaders need to foster a better economic life for the people of China in order to legitimate and justify their continued monopoly of political power. These leaders cannot rely as Mao did on his enormous personal prestige as a successful revolutionary, or on the appeal of Communist ideology: they have little of Mao's prestige, and the appeal of Communist ideology is largely a thing of the past.

- China depends critically on foreign trade, and related foreign investment and assistance, for its economic development.

- China depends particularly heavily on its neighbors for aid, investment, and trade benefits, and on the United States to absorb its exports.

- Therefore, to buttress their survival politically, post-Mao leaders emphasize their concern with maintaining a "peaceful" international environment which assures continued trade, investment, and assistance flows so important to Chinese economic well being.

Thus, Chinese leaders put aside past ideas of autarky and self-reliance and allowed the Chinese economy to become increasingly integrated into the world economy. They sought to avoid dependence on any one power by encouraging broad competition. Beijing made efforts to meet the requirements of the United States and others regarding market access, intellectual property rights and other economic issues, and strove to become a member of the GATT and a founding member of the World Trade Organization (WTO). Chinese leaders duly accepted commitments and responsibilities stemming from their participation with such international economic organizations as the World Bank, the Asian Development Bank and the Asian Pacific Economic Cooperation (APEC) forum.

Chinese leaders remained sensitive on issues of national sovereignty and were less accommodating on international security issues. They did adjust to world pressure when resistance appeared detrimental to broader Chinese concerns. Examples included Chinese cooperation with the international peace settlement in Cambodia in 1991; Beijing's willingness to join the Non-Proliferation Treaty and to halt nuclear tests by the end of 1996 under an international agreement banning nuclear tests; China's willingness to abide by terms of the Missile Technology Control Regime (MTCR) and the Chinese leaders' reportedly helpful efforts to assist the United States in reaching an agreement with North Korea in October 1994 over the latter's nuclear weapons program. Beijing also endeavored to meet international expectations on other transnational issues like policing drug traffic, curbing international terrorism, and working to avoid further degradation of the world's environment.

It is easy to exaggerate the degree of Chinese accommodation to international concerns. Beijing's continued hard line against outside criticism of Chinese political authoritarianism and poor human rights record graphically illustrates the limits of Chinese accommodation. Continued Chinese transfer of sensitive military technology or dual use equipment to Pakistan, Iran and other potential flash points is widely criticized in the United States and elsewhere. And the Chinese political and military leaders are not reluctant to use rhetorical threats or demonstrations of military force in order to intimidate and deter those in sensitive areas like Taiwan, the South China Sea and Hong Kong who are seen by Beijing as challenging its traditional territorial or nationalistic claims.[11]

In short, Beijing has been widely seen by many of the experts consulted for this report and others as accommodating pragmatically to many international norms not because such accommodation is seen as inherently in China's interest. Rather, Beijing is said to view each issue on a case-by-case basis, calculating the costs and benefits of adherence to international norms in each case. Thus, for example, Beijing saw by 1991 that maintaining its past support for the Khmer Rouge in Cambodia would be counterproductive regarding China's broader interests in achieving a favorable peace settlement in Cambodia and solidifying closer relations with the Association of Southeast Asian Nations (ASEAN) countries, Japan and the West -- all of whom saw continued Chinese aid as a serious obstacle to peace. By the same token, the U.S.-led international moratorium on nuclear testing had reached a point in 1994 that Beijing had to announce its decision to stop nuclear testing by the end of 1996, and join a comprehensive nuclear test ban, or risk major friction in its relations with the U.S., Japan, Western Europe and Russia.

Underlying the case-by-case approach is a rising sense of nationalism among Chinese leaders. Viewing the world as a highly competitive state centered system, Chinese leaders remain deeply suspicious of multilateralism and interdependence. Rather, they tend to see the world in more traditional balance-of-power terms, and therefore argue that the current world trend is more multi-polar (i.e. a number of competing nation states) than multilateral (a system where nation states sacrifice their independence and freedom of maneuver for the sake of an interdependent international order).[12]

At bottom, Chinese suspicions of many multilateral efforts center on the role of the United States and the other developed countries. These nations are "setting the agenda" of most such multilateral regimes. They are accused of doing so to serve their own particular national interests and to give short shrift to the interests and concerns of newly emerging powers like China. As a result, many leaders in China see U.S. and other efforts to encourage or press China to conform to multilateral standards on international security, human rights and economic policies and practices as motivated at bottom by the foreign powers' fear of China's rising power, their unwillingness to fairly share power with China, and their desire to "hold down" China--to keep it weak for as long as possible.

---

[11] For background, see CRS Issue Brief 92056 and CRS Report 95-46S.

[12] See among others *Trends of Future Sino-U.S. Relations and Policy Proposals*, Institute for International Studies of Beijing Academy of Social Sciences, *et. al.*, September 1994, and *Sino-U.S. Relations: Status and Outlook--Views From Beijing*, CRS memorandum, August 15, 1994.

ASSESSMENT AND PROSPECTS

The above analysis of the international behavior of the PRC in recent years suggests several key themes:

1. Chinese leaders now see the security environment around China's periphery as less likely to be disrupted by a major international power than at any time in the past. Of course, the reduced big power military threat does not preclude danger posed by possible conflicts between China and its neighbors over territorial disputes or other issues that China itself might provoke. Nor does it automatically translate into growing Chinese influence in Asia or sanguine Chinese leadership attitudes regarding the evolving balance in Asia. Regional economic and military powers (e.g., Japan, Indonesia, India) are among leaders asserting their influence as East-West and Sino-Soviet tensions have ended.

2. Regional security trends are generally compatible with China's primary concern with internal economic modernization and political stability. So long as the regional power balance remains stable and broadly favorable to Chinese interests, it will not intrude on Beijing's recent effort to give pragmatic development of advantageous economic contacts top priority in its foreign affairs. At least some leaders in Beijing appear prepared to embark on a more assertive Chinese stance in the region presumably after China has achieved solid progress in its economic modernization program.

3. Ideological and leadership disputes have less importance for Chinese foreign policy than in the past. Although Chinese leaders could be divided between more conservative officials and those who are more reformist, the differences within the leadership over foreign affairs have appeared markedly less than they were during the Maoist period.

4. Reflecting the more narrow range of foreign policy choices present among Chinese leaders, Beijing's foreign policy has become more economically dependent on other countries, especially the Western - aligned, developed countries, than in the past. Particularly as a result of the new openness to foreign economic contacts and the putting aside of Maoist policies of economic self reliance, Beijing has come to see its well-being as more closely tied to continued good relations with important developed countries, notably Japan and the United States. They provide the assistance, technology, investment and markets China has needed to modernize effectively.

5. China's overall pragmatic adjustments in world affairs are not dependent on just one or two leaders in China. Although Deng Xiaoping picked up senior foreign policymaking duties from Mao Zedong and Zhou Enlai, the policies followed have represented, in

broad terms, an outline agreed upon among senior Chinese leaders who are advised and influenced by a wide range of experts and interest groups in China. Many of these groups have a strong interest in dealing pragmatically with world affairs. This has included particularly strong economic, technological and other interconnections between Chinese enterprises and interest groups and counterparts outside China. As a result, they are loathe to pursue autarkic, confrontational or provocative policies that could jeopardize their particular concerns as well as China's economic progress in an increasingly interactive world. A substantial segment of the Chinese leadership does remain suspicious of U.S. pressure and very sensitive regarding issues of national sovereignty.

The outlook for Chinese foreign policy over the next 5 to 10 years remains uncertain. Optimists in the West tend to extrapolate from the pragmatic trends seen in Chinese foreign policy behavior since the death of Mao and the rise of pragmatic nation-building policies of Deng Xiaoping. They argue that the logic of post-Mao foreign policy will continue to drive Chinese leaders in directions of greater cooperation, accommodation and interdependence with the outside world, and especially China's neighbors and the advanced developed countries led by the United States. According to this view, as China becomes economically more advanced, it will undergo social and eventually political transformation, that will result in a more pluralistic political decisionmaking process in Beijing that will act to check assertive or aggressive Chinese foreign actions or tendencies. Moreover, as Beijing becomes more economically interdependent on those around China and the advanced developing countries, it will presumably be less inclined to take aggressive or disruptive actions against them.[13]

Pessimists in the U.S. and elsewhere in the West are more inclined to focus on the strong nationalistic ambitions and intentions of the Chinese leaders. They are often struck by the strong nationalistic views of at least a segment of PRC leaders in the past two years who voice deep suspicion of U.S. pressures directed against China. These Chinese leaders see these U.S. pressures and other U.S. policies, such as support for Taiwan, as fundamental challenges to China that must be confronted and resisted.

In the past, Chinese nationalistic ambitions ran up against, and were held in check by U.S.-backed military containment or Soviet-backed military containment. Later, Beijing's need for advantageous foreign economic interchange to support economic development at home, and thereby legitimate continued communist rule in China, caused it to curb assertive, nationalistic behavior abroad. But the pessimists believe that Beijing has now or will soon reach a point of economic development where it will no longer need to cater so much to outside concerns. For example, the government in Beijing may have reinforced its political legitimacy by its record of material progress in recent years. And China's economy has become such a magnet for foreign attention that the Sino-foreign tables could be reversed -- that is, foreign countries now will feel an increasing need to accommodate China or risk being closed out of the booming China market, rather than China feeling a need to accommodate foreign interests.[14] China is now widely acknowledged as a world-class economic power and possibly a nascent superpower. None of this is unrecognized by China's leadership.

---

[13] Discussed, among others, in Zhang, Ming, "China and the Major Power Relations," *The Journal of Contemporary China*, Fall 1994.

Whether China will follow the path of the optimists or pessimists, or some other future course, will depend heavily on two sets of factors.

1. Internal--political stability and the course of economic and political performance;

2. External--the interaction of Chinese relations with key states around its periphery and Chinese adjustment to international trends in the so-called "new world order."

Internal Variables

Developments inside China that could cause a shift from pragmatism to a more assertive and disruptive emphasis on nationalism in Chinese foreign policy are:

- a major economic failure or change in political leadership. These could prompt Beijing leaders to put aside their current approach to nation-building and adopt a more assertive foreign policy; this could be accompanied by harsher reactions to internal dissent and to Western influence in China;

- the achievement of such a high level of economic success and social-political stability that Chinese leaders would feel confident that China was strong enough to pursue its interests in the region and elsewhere with less regard for the reaction or concerns of other countries.

Some have argued that it might be good for Asian and world stability if China continued to make progress toward economic modernization, but failed to achieve full success.[15] Under these circumstances, Beijing leaders would likely continue to see their interests as best served by pursuing a moderate, conventional nation-building program. They would likely remain preoccupied with the difficulties of internal modernization and would not achieve the level of success that would allow for a more forceful policy in Asian and world affairs for some time to come.

---

[14] Discussed, among others, in Chong-Pin Lin, "Chinese Military Modernization: Perceptions, Progress and Prospects," *Security Studies*, summer 1994.

[15] Reviewed in China in Transition, CRS Report 93-1061S, December 20, 1993, 23 p. Of course, among other arguments are those that stress that an economically successful China would be very closely integrated with and dependent on the world economy, and would not be disruptive in world politics.

An examination of variables governing China's development and reform efforts suggests that Beijing appears to face such future prospects. Beijing leaders are unlikely to achieve fully their current development objectives for some time because of significant economic constraints, the complications from efforts to implement proposed reforms, and leadership and political instability. Major short-term economic constraints include an inadequate transportation system, insufficient supplies of electric power, an expanding government spending deficit, money-losing state enterprises, and a shortage of trained personnel. Long-term impediments include growing population pressure, the difficulty of obtaining enough capital to develop available energy resources and general industry, and the slowdown of agricultural growth after the rapid advances in the recent past.[16]

Reflecting these and other important constraints, the Chinese leadership at present continues to delay some changes in prices and economic restructuring because it fears they would have serious consequences for Chinese internal stability. Such changes can trigger inflation and cause hoarding. Closing inefficient factories forces workers to change jobs and perhaps remain unemployed for a time. Decentralized economic decisionmaking means that local managers can use their increased power for personal benefit as well as for the common good. The result of these kinds of impediments has been a zig-zag pattern of forward movement and slowdown in economic reforms.

The problems of political stability focus on leadership succession--as principal leader Deng Xiao-ping's health slowly fades--and the difficulty Beijing has in trying to control students, workers, and others demanding greater accountability, less corruption, or other steps that would curb central authority. The repeated political difficulties over the results of the economic reforms and political measures continue to demonstrate the volatility of politics in China.

Of course, the widely publicized difficulties of the reform efforts sometimes obscure their major accomplishments and the political support that lies behind them. Reflecting the rapid economic growth in China over the past 17 years, the constituency favoring economic reform includes representatives of coastal provinces, enterprise managers, prospering farmers, many intellectuals, and technically competent party officials. The major alternatives to current policies (e.g., Maoist self reliance, Soviet-style central planning) have been tried in the past and have been found wanting. Some of the followers of purged party leader Zhao Ziyang provided an alternative favoring greater political as well as economic reform, but thus far no leader has emerged with a program with viable support or constituency able to lead China in a direction markedly different than the current Communist Party-led development effort. Thus, on balance, it appears likely that Beijing will remain focused on economic reform while stressing the need for political stability, even in the event of strong leadership and political disputes and economic complications in the next few years. Nevertheless, analysts are sometimes concerned about what they see as Chinese assertiveness in the post-cold war order in Asia.

---

[16] See among others CRS Issue Brief 93114.

External Relations

The foreign powers around China's periphery and those who have an important role to play regarding Chinese interests in international organizations, trade and global issue could influence the course of Chinese foreign policy in several ways. Some may adopt policies on issues sensitive to Beijing that would prompt Chinese leaders to subordinate pragmatic interests for the sake of protecting Chinese territorial or other national claims. Most notable in this regard are outside challenges to China's claims to disputed territories. In the case of Taiwan, for example, if the leaders in Taipei were to formally declare independence from the mainland, Beijing might be hard put not to follow through on its repeated pledge to use force to stop such a development. And in the case of disputed claims to islets in the South China Sea, Chinese naval forces could be expected to respond promptly to any effort by Vietnam or others to expand their territorial holdings by force.

On global economic issues, there is uncertainty as to how far the Chinese government will go in compromising with or retaliating against the U.S. and others unless China is allowed expeditiously to enter the WTO.[17] What is clear, however, is that a major shift toward protectionism among the developed countries would clearly undermine the basis of China's export-led growth. It could lead to a major shift in China's foreign policy, away from continued cooperation with the developed countries. By the same token, if foreign powers were to appear to "gang up" against China and impose sanctions because of PRC arms exports, human rights or other policies, this too might prompt a serious Chinese reevaluation of the costs and benefits of cooperation with the international status quo.

In contrast to those who argue against heavy or provocative external pressure on China are those who argue against the dangers of appeasement or weakness in the face of China's growing strength. Even those who want foreign countries to "engage" closely with China often add that this must be done from a firm position. As a recent Trilateral Commission Study concluded "a cooperative approach may not elicit a constructive Chinese response... the strength and prosperity of the Trilateral Countries -- not their weakness -- generate Chinese respect. Such classic considerations as balance of power, realism and a keen sense of Trilateral interests must also govern Western and Japanese thinking about China."[18]

ROLE OF THE U.S. AND U.S. POLICY CHOICES

Although the United States does not border on China, Beijing recognizes that the United States still exerts predominant strategic influence in East Asia and the Western Pacific; is a leading economic power in the region, surpassed locally only by Japan; and is one of only two world powers capable of exerting sufficient power around China's periphery to pose a tangible danger to Chinese security and development. As the world's only superpower, the United States also exerts strong influence in international financial and political institutions (e.g. the World Bank and the UN) that are very important to Beijing, and its role in particular areas sensitive to Beijing, notably policy regarding Taiwan and international human rights, is second to none.[19]

---

[17] Discussed, among others, in CRS Issue Brief 94002.

[18] Funabashi, Yoichi, et. al., *Emerging China In A World of Interdependence*, Trilateral Commission, May 1994.

The pattern of international interchange with China's growing strength in recent years appears to underline the importance of the U.S. role. Few of China's neighbors are willing to challenge or express strongly different views than the PRC on major issues. They privately support a significant U.S. military presence in the region, partly because it serves as an implicit counterweight to China's military power. They and more distant developed countries also privately support firm U.S. efforts to open China's markets, end unfair commercial practices, and protect the integrity of the world trading system. And they appreciate the U.S. efforts to press China to end nuclear testing and proliferation of equipment and technology for weapons of mass destruction.[20] Notably, however, this support is usually not expressed openly.

Beijing too sees the United States as the key link in the international balance of power affecting Chinese interests. This judgement goes far toward explaining why Chinese leaders so avidly seek a visit to China by President Clinton. It would signal to all at home and abroad that the United States has muffled its opposition to and endorses cooperation with the Beijing government. Of course, as noted above, some Chinese leaders remain deeply suspicious of U.S. motives. They believe the U.S. government is conspiring to weaken and undermine the Chinese leadership and "hold back" China from a more prominent position in world affairs.[21]

There is general agreement in the United States that Washington should use its influence in order to have Beijing conform to international norms and over time to foster changes in China's political, economic, and security systems compatible with American interests. At the same time, there is little agreement in Washington on how the United States should achieve these objectives. In general, there are three general approaches influencing current U.S. China policy and little indication as to which approach will ultimately succeed.[22]

On one side is an approach favored by some in the Clinton Administration, the Congress and elsewhere who argue in favor of a moderate, less confrontational and "engaged" posture toward China. Some in this camp are concerned with perceived fundamental weaknesses in China and urge a moderate U.S. policy approach out of fear that to do otherwise could promote divisions in and a possible breakup of China with potentially disastrous consequences for U.S. interests in Asian stability and prosperity. Others are more impressed with China's growing economic and national strength and the opportunities this provides for the United States. They promote close U.S. engagement with China as the most appropriate way to guide the newly emerging power into channels of international activity compatible with American interests.

---

[19] See, among others, "Trends of Future Sino-U.S. Relations," cited in note 12.

[20] See sources cited in notes 8 and 18.

[21] See, among others, *Sino-U.S. Relations: Status and Outlook--Views From Beijing*, CRS memorandum, August 15, 1994.

[22] See sources noted in notes 8 and 18. This section also benefitted greatly from interviews noted in note 1.

Sometimes underlying this moderate approach is a belief that trends in China are moving inexorably in the "right" direction. That is, China is becoming increasingly interdependent economically with its neighbors and the developed countries of the West, and is seen as increasingly unlikely to take disruptive action that would upset these advantageous international economic relationships. In addition, greater wealth in China is seen pushing Chinese society in directions that seem certain to develop a materially better-off, more educated and cosmopolitan populace that will over time press its government for greater representation, political pluralism and eventually democracy. Therefore, U.S. policy should seek to work ever more closely with China in order to encourage these positive long term trends.

A second, tougher approach is that of some U.S. advocates inside and out of the U.S. Government who have doubts about the interdependence argument. These U.S. policy makers and opinion leaders stress that Beijing officials still view the world as a state-centered competitive environment where interdependence counts for little and compromises sovereign strength. China's leaders are seen as determined to use whatever means at their disposal to increase China's wealth and power. At present, Beijing is seen biding its time and conforming to many international norms as it builds economic strength. Once it succeeds with economic modernization, the argument goes, Beijing will be disinclined to curb its narrow nationalistic or other ambitions out of a need for international interdependence or other concerns for world community. When strong enough, China, like other large powers in the past, will possess great capabilities and will attract no few friends or allies.

Under these circumstances, this approach encourages U.S. leaders to be more firm than moderate in dealing with China. Rather than trying to persuade Beijing of the advantages of international cooperation, the United States is advised to keep military forces as a counterweight to rising Chinese power in Asia; to remain firm in dealing with economic, arms proliferation and other disputes with China; and to work closely with traditional U.S. allies and friends along China's periphery in order to deal with any suspected assertiveness or disruption from Beijing.

A third approach is favored by some U.S. officials and others who believe that the political system in China needs to be changed first before the United States has any real hope of reaching a constructive relationship with China. Beijing's communist leaders are seen as inherently incapable of long term positive ties with the United States. U.S. policy should focus on mechanisms to change China from within while maintaining a vigilant posture to deal with disruptive Chinese foreign policy actions in Asian and world affairs. The development of an authoritarian superpower more economically competent than the USSR is not to be aided.

Outlook for U.S. Policy

Given the continued wide range of opinion in the United States over the appropriate U.S. policy toward China, it appears likely that U.S. policy will continue its recent pattern of trying to accommodate elements of all three approaches. On some issues, like linking MFN treatment and human rights, the U.S. Government has seen U.S. interests best served by an approach that meets PRC concerns. On others, like intellectual property rights protection and proliferation of missile technology, the United States Government seems prepared to threaten sanctions or to withhold benefits from Beijing until it conforms to norms acceptable to the United States. Meanwhile, although many U.S. officials would see as counterproductive any declaration by the U.S. Government that a policy goal was to change China's system of government, there is a widespread assumption that greater U.S. "engagement" will encourage such desirable changes.[23]

Whether the U.S. Government policy synthesis of these three tendencies is done smoothly or is accompanied by the often strident policy debates accompanying U.S. China policy decisions in recent years depends partly on U.S. leadership. In this vein, specialists interviewed for this report suggested several rules of thumb that U.S. leaders could consider when determining whether the United States should try to accommodate, confront or change China on a particular policy issue:

1. How important is the issue at hand for U.S. interests? (In general the more important U.S. interests at stake, the less accommodating and more forceful U.S. leaders should be.)

2. How does the issue at hand fit in with broader U.S. strategic interests in relation with China? (Presumably, some U.S. officials would be inclined to soft pedal relatively minor disputes with China when they are pressing for broader gains elsewhere).

3. How much leverage does the United States have over the PRC on this issue? (In general, the greater the degree of U.S. leverage, the easer it is for U.S. leaders to press for their demands.)

4. What are the attitudes of U.S. allies and associates? (If they do not support a firm U.S. stance, U.S. efforts to pressure China may be outflanked, Quixotic and counterproductive.)

---

[23] Some of those interviewed made a strong case for a carefully differentiated U.S. approach that uses sometimes hard and sometimes soft tactics, but that encouraged forward movement toward greater convergence and cooperation in U.S-China relations.

5. How sensitive is the issue at hand to the PRC. (Experience has indicated that Beijing has shown less sensitivity and greater flexibility on international economic issues, and has shown more sensitivity and less flexibility on issues involving domestic political control and territorial claims. Many analysts believe that PRC leadership flexibility on sensitive issues will be restricted for a time as a result of the decline of Deng Xiaoping's health and the ongoing leadership succession struggle).

Other matters of importance in considering specific China policy issues include:

- How does the U.S. stance affect broader U.S. interests in Asian stability and international affairs?

- What is the U.S. "bottom line"? Chinese officials will press for the advantage until they find it.

- Can this matter be effectively pursued in an overall friendly and respectful atmosphere? This reduces suspicions in Beijing regarding the alleged overall hostile intent of U.S policymakers toward China -- suspicions which greatly limit PRC flexibility.

- Can this issue be pursued with the aid of U.S. allies, associates and other international leaders to create an atmosphere that would prompt Beijing to change in directions favored by the United States? (The United States used this approach in part to get Beijing to go along with international sanctions and military action against Libya and Iraq; with planned sanctions against North Korea; and with provisions of the 1991 Cambodian peace accord that were opposed by Beijing's former client, the Khmer Rouge.)

BEST COPY AVAILABLE

China-U.S. Relations

SUMMARY

President Clinton announced on May 26, 1994 that he was "delinking" human rights from China's Most Favored Nation (MFN) trading status and extending MFN to China despite Beijing's failure to meet the human rights conditions set in Clinton's Executive Order granting MFN for China in 1993. Some in Congress opposed the move, but the House of Representatives on Aug. 9, 1994, defeated legislation designed to toughen U.S. policy toward China and passed legislation supporting President Clinton's policy.

Subsequent events reflected a mix of positive U.S. efforts to develop closer relations, especially in trade and defense areas, and continued signs of serious friction over Taiwan, GATT, and other questions.

Commerce Secretary Brown led a large delegation of business people to China in late August 1994, signing over $5 billion in contracts. The Administration's Sept. 7, 1994, Taiwan Policy Review upgraded U.S. contacts with Taiwan -- a step eliciting a formal protest from Beijing. On Oct. 4, 1994, the United States and China signed an agreement allowing the export of high technology satellites to China that were halted as a sanction against Beijing's secret transfer of missile components and technology to Pakistan. China agreed that once the sanctions are ended, it will abide by rules of the international Missile Technology Control Regime (MTCR).

In December, Beijing issued an "ultimatum" threatening to revoke previous trade arrangements if the United States did not acquiesce in China's entry into GATT, and it canceled a planned visit of Transportation Secretary Pena because of the Secretary's visit to Taiwan that month. A U.S.-China trade conflict threatening over $2 billion in annual trade was averted by a bilateral agreement on intellectual property rights disputes reached on Feb. 26, 1995. Energy Secretary O'Leary oversaw the signing of agreements with a reported value of several billion dollars during a trip to Beijing in February 1995. On Mar. 12, 1995, China and the U.S. reached agreement on market access disputes and China's entry into the World Trade Organization (WTO). On Mar. 22, 1995, a U.S. warship visited China -- the first such visit since 1989.

Although U.S. optimists judge that China's growing economic and military power and more assertive policies will be moderated by an ever-widening web of international interdependence, U.S. skeptics suspect that greater power will allow Beijing to be more assertive in backing nationalistic, territorial, or other demands.

There is general agreement in the United States that Washington should use its influence to encourage Beijing to conform to international norms, and over time to foster changes in China's economic, political, and security policies compatible with U.S. interests. At the same time, there remain major differences among three general approaches followed by U.S. officials and others as to how to achieve these objectives.

As a result, U.S. policy may continue to develop case-by-case, sometimes accommodating Beijing, sometimes pressing Beijing to change its policies, and sometimes working toward a fundamental change in the Chinese government system. In this atmosphere, effective U.S. policy will probably require careful weighing of the importance of the issue at hand for U.S. interests, U.S. leverage over China, the position of U.S. allies and associates, and the sensitivity of the issue to the PRC.

Reprinted from China-U.S. Relations; Issue Brief, by Robert G. Sutter and Kerry Dumbaugh. Updated Regularly. (CRS Issue Brief IB94002)

Congressional Research Service • The Library of Congress

CRS

MOST RECENT DEVELOPMENTS

A U.S.-China trade conflict threatening over $ 2 billion in annual trade was averted by a bilateral agreement on intellectual property rights disputes reached on Feb. 26, 1995. Energy Secretary O'Leary oversaw the signing of agreements with a reported value of several billion dollars during a visit to Beijing in February 1995. The United States and China reached agreement on Mar. 12, 1995, regarding market access disputes and China's entry into the WTO. On Mar. 22, 1995, a U.S. warship visited China -- the first such visit since 1989.

BACKGROUND AND ANALYSIS

U.S.-China Policy in the Bush Administration

China's Tiananmen Square crackdown brought about an end to a pattern of general congressional support for Administration initiatives on China that had characterized U.S. policy since 1980. Between 1989 and 1992, the U.S. policy process on China was characterized by confrontation rather than consensus, with Congress and the Bush Administration clashing repeatedly over the direction and conduct of China policy. President Bush supported a policy of engagement with China. Administration officials often blamed Congress for being "obstructionist" and "partisan" on China issues, while Members of Congress often criticized the President for ignoring congressional initiatives and being too accommodating toward Beijing.

Importance of the MFN issue

Seeking to maximize its influence over the policy process, Congress began to use the President's annual MFN renewal request as a vehicle for registering U.S. disapproval of China's human rights violations, and as a way of keeping pressure on the Bush Administration to be tougher toward China. In 1990, Congress attempted to impose fairly general human rights conditions related to the Tiananmen crackdown. Among them were requirements that China release political prisoners and improve political freedoms. Legislative action on the bill in 1990 was not completed.

As the MFN debate recurred in 1991 and 1992, Congress began to broaden its focus and include new charges involving human rights violations, trade problems, and proliferation allegations. MFN legislation Congress passed in 1992 (H.R. 5318) included objectives in these areas that China should meet to retain its MFN status.

As expected, President Bush vetoed H.R. 5318, on Sept. 28, 1992. But meanwhile, continued congressional pressure and lack of progress by China had prompted the Bush Administration to begin adopting a somewhat tougher approach toward China. Several new policies closely paralleled congressional concerns. The U.S. Customs Service began investigating the extent to which China was using prison labor to produce export products. On Aug. 7, 1992, the United States and China formally signed a memorandum-of-understanding (MOU) prohibiting Chinese prison labor exports to the United States. In addition, China and the United States agreed to begin regular formal talks, at the Assistant Secretary level, to discuss human rights issues.

Congress also considered separate bills in 1992 which mirrored the human rights conditions attached to the broader MFN legislation. Notably, responding to continued Chinese jamming of Voice of America (VOA) broadcasts, Congress incorporated a provision into the Foreign Relations Authorization Act for FY1992 and FY1993 (P.L. 102-138) establishing a Commission on Broadcasting to the People's Republic of China, tasked with exploring the establishment of a separate broadcasting service to China. When the Commission submitted its report 6 months later, a majority of its members recommended establishing a new service and placing it under direction of the Board for International Broadcasting; a minority opted for augmenting and redesigning VOA services to China.

Also in 1992, Congress enacted the U.S. Hong Kong Policy Act (P.L. 102-383), which set out U.S. policy goals on Hong Kong and established punitive measures should China not adhere to the Joint Declaration on Hong Kong. Congress also enacted the Chinese Student Protection Act (P.L. 102-404), providing that Chinese nationals in the United States who had arrived prior to Apr. 11, 1990, could adjust to permanent resident status beginning July 1, 1993.

Early Clinton Administration

During his campaign, Mr. Clinton staked out a position on China that was markedly different from that pursued by the Bush Administration. He stated his belief that the United States should use its economic leverage to promote democracy in China. He supported congressional action to link China's MFN status with its human rights policies, and supported a number of other congressional initiatives.

Decision on MFN: 1993

The annual MFN decision in 1993 was the Administration's first major test on U.S.-China relations. Under U.S. law, China's eligibility for MFN status is subject to an annual renewal, which the President must request by June 3, and which automatically goes into effect if Congress does not enact a joint resolution of disapproval within 60 days. On May 28, 1993, President Clinton issued a Report to Congress and an Executive Order which effectively continued China's unconditional MFN status for another year (through July 1994), but placed conditions on China's MFN status in succeeding years.

Under the President's Executive Order, the Secretary of State may not recommend an extension of China's MFN treatment in 1994 unless he determines (1) that China has abided by its 1992 agreement with the United States to halt exports of prison labor products to the United States, and (2) that an extension will substantially promote the freedom-of-emigration objectives in the Jackson-Vanik amendment to the 1974 Trade Act. In addition, in making his recommendation the Secretary must determine whether China has made overall significant progress in human rights, including:

- adhering to the Universal Declaration of Human Rights
- releasing and acceptably accounting for political prisoners
- ensuring humane treatment of prisoners
- protecting Tibet's religious and cultural heritage, and

- permitting international radio and television broadcasts into China.

The Executive Order further stated that the Administration would pursue other legislative and executive actions to ensure that China complied with trade agreements and adhered to the Non-Proliferation Treaty (NPT), Missile Technology Control Regime (MTCR), and other nonproliferation commitments.

On the whole, the immediate reaction to the President's MFN decision was positive. House and Senate sponsors of legislation conditioning the granting of MFN, both Democrats, expressed their support for the President's Executive Order over their own bills. In effect this suspended, for the remainder of the year, what had become a rancorous annual congressional debate on MFN conditionality; neither bill was acted upon in 1993. Many thought that Chinese officials also seemed relieved over the May 28 decision; although the Chinese Foreign Ministry lodged a "strong protest" -- the first such protest since February 1990 -- its statements concerning the decision were relatively restrained. Chinese officials were aware that the two MFN bills pending before Congress would have greatly reduced the Administration's flexibility in determining China's future MFN status.

Policy Initiatives, 1993-1994

The breathing spell that the May 1993 MFN decision bought for U.S.-China relations lasted less than 3 months. By late summer, several of the long-standing irritants in the relationship were newly raw. As a series of confrontations developed over human rights and weapons proliferation, neither the United States nor China appeared to be pursuing consistent policies. The relationship, far from being stabilized, eroded further with a rapidity that startled administration observers. During August and September 1993, China issued strong protests against a number of U.S. actions, accompanied by unusually harsh rhetoric criticizing American intentions and objectives. Concerned about the state of U.S.-China relations, U.S. officials began a reassessment of U.S. policy, a process which culminated in September 1993 with the President's signing of an action memorandum.

U.S. policy toward China entered a new phase in September 1993. According to press reports, President Clinton signed a classified "action memorandum" in mid-month which defined the new policy direction. Administration officials termed the new approach a policy of "comprehensive engagement." In conjunction with the new policy, a procession of high-level U.S. officials visited Beijing. Together, they represented all three of the contentious issues that had driven U.S.-China relations in recent years -- human rights, trade, and nonproliferation. The officials included the following.

- Assistant Secretary of State for Human Rights, John Shattuck, who went to initiate a human rights dialogue with China, and also visited Tibet (October 12).

- Secretary of Agriculture Mike Espy, to discuss China's purchases of U.S. grain, particularly wheat (October 15).

- Deputy U.S. Trade Representative Charlene Barshevsky, to discuss general trade issues (October 23).

- Assistant Secretary of Defense Charles Freeman, to discuss regional security issues, China's role in future peacekeeping missions, and weapons proliferation (November 1).

In addition to these high-level exchanges, President Clinton met with China's President Jiang Zemin at the November 1993 APEC conference in Seattle; the Administration on Mar. 30, 1994 announced new, liberalized licensing procedures for export of high-technology items to China and other proscribed countries, which had once been controlled by the now-defunct Coordinating Committee on Multilateral Export Controls (COCOM); and, most significantly, the President, on May 26, 1994, announced his decision to extend China's MFN status for another year despite Beijing's failure to meet the human rights criteria in his 1993 Executive Order.

Resumption of Military Contacts

The visit of Assistant Secretary of Defense Charles Freeman effectively ended the ban on high-level military contacts which had been in place since June 5, 1989. Although the United States had developed close military ties and cooperation with China during the 1980s -- even selling China some military equipment and weapons systems -- military contacts had been suspended since the 1989 Tiananmen Square crackdown.

The decision to resume military contacts reportedly reflected U.S. Administration officials' concerns about a number of disturbing trends in China. In particular was the observation by U.S. officials that the People's Liberation Army (PLA), formerly a chief proponent of closer U.S. ties, had begun to reassess its views of China's security threats. U.S. experts believed the PLA was developing deep suspicions of American intentions toward China, and was becoming more inclined to challenge U.S. political and military interests. According to U.S. press reports, a classified U.S. Intelligence Estimate on China warned that China's military leaders were beginning to see the United States, and not the former Soviet Union, as China's principal enemy. The Clinton Administration apparently hoped that the Freeman visit and future military dialogues would help defuse this trend.

Status of Missile-related Sanctions

On Jan. 7, 1994, the Administration announced that China and the United States would begin nonproliferation talks in Washington on Jan. 26, 1994, to address reports of Chinese export of M-11 missile technology and equipment to Pakistan and resulting U.S. sanctions imposed on Aug. 24, 1993 (see CRS Issue Brief 92056). In addition, the U.S. Commerce Department was authorized to approve export licenses for three U.S. communications satellites which were to be sent to China for launch, on the grounds that the satellites were not covered by the Aug. 24, 1993, sanctions; it had been anticipated that the licenses would be a casualty of the U.S. sanctions. On Oct. 4, 1994, the United States and China signed an agreement allowing the export of high technology satellites to China that were frozen as a sanction against Beijing's secret transfer of missile components and technology to Pakistan. China agreed that once the sanctions are ended, it will abide by rules of the international Missile Technology Control Regime (MTCR).

Asia Pacific Economic Cooperation Forum (APEC) Meeting

The 1993 Ministerial and Leaders' Meeting of APEC, which the United States hosted in Seattle in November 1993, provided another opportunity for the Administration to engage with Chinese leaders. Prior to the APEC meeting, on Nov. 17, 270 Members of the U.S. House of Representatives signed a letter to President Clinton expressing their concern for China's lack of progress in meeting conditions on human rights, trade, and prevention of weapons proliferation. When President Clinton met with China's President, Jiang Zemin, in a private 90-minute meeting during the APEC summit, he urged the Chinese leader to demonstrate "early concrete progress" on these conditions. He also specifically asked China to permit International Red Cross inspections of Chinese prisons; begin a dialogue with the Dalai Lama, Tibet's spiritual leader; and allow U.S. Customs officials to inspect Chinese prisons under the terms of a U.S.-China agreement of August 1992 covering exports of prison-made goods. Mr. Jiang responded with a conventional Chinese deflection -- that U.S.-China dialogue should be conducted on the basis of mutual respect, without "interference in one another's affairs"; and that the United States would have to lift its remaining sanctions before meaningful negotiations could take place.

Also during the APEC leaders meeting, Secretary of State Christopher, meeting with Chinese Foreign Minister Qian Qichen, told his counterpart that the United States was dropping its long-standing opposition to China's purchase of an $8 million Cray supercomputer. U.S. officials defended the decision by saying that it was a goodwill gesture toward China, and that monitoring of the supercomputer's use will assure it is not used by the military. China has said that the computer will be used for weather forecasting.

Secretary of State Warren Christopher's Visit to Beijing, March 1994

On Mar. 11, 1994, Secretary of State Christopher took to Beijing the message that China needed to make rapid further progress on human rights in order to satisfy the conditions of the 1993 Executive Order. Reinforcing this point, the Secretary's trip was preceded by the visit of John Shattuck, U.S. Assistant Secretary of State for Human Rights Affairs, who made a point of meeting with a prominent Chinese dissident. Chinese leaders appeared strongly opposed to, even defiant of, the U.S. position on human rights. They repeatedly stressed that China would not allow its human rights policies to be dictated by the United States. In particular, Chinese security forces detained prominent Chinese activists and some western journalists prior to Secretary Christopher's visit. In the aftermath of the Secretary's visit, U.S. officials publicly expressed satisfaction that the visit resulted in progress on the two mandatory provisions of the 1993 Executive Order: clearing blocked Chinese passports to facilitate emigration; and a second Memorandum of Understanding (MOU) on preventing exports of products made by prison labor. But privately, many observers expressed concern that China's widely publicized stance during the Christopher visit would not make the President's impending decision on MFN any easier.

President Clinton's 1994 Decision to Renew China's MFN status

In a press conference on May 26, 1994, President Clinton announced that he had decided the United States should renew China's MFN trading status despite Beijing's failure to meet the human rights conditions in his 1993 Executive Order. Furthermore, he stated that he was moving to "delink" human rights from China's MFN status, saying that the United States had "reached the end of the usefulness of that policy." Acknowledging that China continued to commit very serious human rights abuses, the President also announced that he was extending the Tiananmen sanctions imposed against China (see CRS Report 94-92 F, China: Current U.S. Sanctions); banning the import of munitions from China, principally guns and ammunition; and inaugurating a new program to support those working for human rights improvements in China. This program is to include: increased broadcasts for Radio Free Asia and the Voice of America; increased support for non-governmental organizations (NGOs) working on human rights in China; and working with American businesses to develop a voluntary principles for business activity in China.

The New Arms Embargo on Imports. The arms embargo announced by the President on May 26 went into effect at 12:01 am on May 28, 1994. The embargo places a complete prohibition on the imports from China of articles on the Munitions Import List of the Bureau of Alcohol, Tobacco, and Firearms (BATF), including articles for which current valid import permits are held or articles which may be en route. According to the U.S. Customs Service, such imports were projected to total approximately $200 million in 1994. Current information is that the only articles on the Munitions Import List that China currently exports to the United States are ammunition, firearms, firearms parts and accessories (for example, rifle scopes), and gas masks. Under several sets of U.S. Government regulations (the Department of State's International Traffic in Arms Regulations -- 22 CFR 126.1(a), and the Treasury Department's Regulations on the Importation of Arms, Ammunition, and Implements of War -- 27 CFR 47.52(a)), U.S. policy is to prohibit imports of defense articles from countries subject to a U.S. arms export embargo. According to the U.S. Customs Service, China has been exempted from this policy since 1989. The President's May 26 decision brings U.S. policy toward China into conformity with U.S. regulations.

Congressional Initiatives

On Aug. 9, 1994, the House of Representatives considered three measures relating to China's MFN status, and enacted one which essentially codified the President's initiatives. The first measure was **H.J.Res. 373** (Solomon), which would have disapproved President Clinton's recommendation that MFN be extended to China for another year. This resolution would have had to have been approved by both houses by August 31 before it could go into effect. Its August 9 defeat in the House, by a vote of 75 -356, effectively killed the measure for 1994.

The House also considered two alternative proposals addressing the issue of MFN for China. Under the rule, both measures were being offered as substitutes to the United States-China Act of 1994 (**H.R. 4590**, introduced by Representatives Pelosi, Bonior, and Gephardt). One substitute, also by Pelosi, was identical to the bill itself. It would have required the Secretary of State to encourage American businesses to adopt the voluntary code of conduct mentioned above. In addition, the substitute provided for two alternative provisions which essentially would have limited the measure's punitive effects to goods produced by Chinese government entities, while protecting MFN status for goods produced by China's private-sector entrepreneurs or joint ventures with foreign partners:

- it declared that even if Congress passed a joint resolution of disapproval, MFN status would be denied only to those imported products that are produced, manufactured, or exported by Chinese state-owned enterprises;

- it declared that if Congress did not pass a joint resolution of disapproval, MFN status would not be extended to imports of goods made or exported by the Chinese military or a defense industrial trading company, or to goods in most major product categories made or re-exported by Chinese state-owned enterprises.

The second substitute, offered by Rep. Hamilton, in effect codified the President's May 26 decision recommending MFN be extended to China, except for the President's initiative to prohibit imports of Chinese arms and ammunition. The House adopted the Hamilton substitute by a vote of 280-152, and rejected the Pelosi substitute by a vote of 158-270. (See CRS Issue Brief 92094, *Most-Favored-Nation Status of the People's Republic of China.*)

Subsequent Actions

The Clinton Administration moved to solidify aspects of U.S.-China relations, but developments also reflected a number of issues in contention:

- Commerce Secretary Brown led a large business delegation to China in August 1994, signing $5 billion in contracts. China also agreed to resume the off-again, on-again human rights dialogue with the U.S.

- The Clinton Administration proposed only minor adjustments in U.S. relations with Taiwan as a result of a lengthy Taiwan policy review announced on September 7.

- Foreign Minister Qian signed agreements on Oct. 4, 1994 allowing the U.S. to lift sanctions imposed as a result of China's sale of missile components to Pakistan; and pledging to work to end the production of fissile material for nuclear weapons.

- Defense Secretary Perry held four days of talks with senior military and government leaders in Beijing.

- President Clinton discussed North Korea, proliferation, trade, human rights and other issues with China's President at the APEC leaders' meeting in Indonesia on Nov. 14, 1994. The Chinese president was enthusiastic about the U.S.-North Korean nuclear accord.

- Beijing threatened to end commercial agreements with the United States unless it got into GATT by year's end, and it canceled Secretary Pena's visit to China on account of his visit to Taiwan in early December.

- USTR Kantor on Dec. 31, 1994, threatened trade sanctions worth over $1 billion unless Beijing met U.S. IPR conditions by Feb 4. The U.S. began such formal trade sanctions on Feb. 4, and China immediately announced pretaliatory steps. The trade conflict was averted by an agreement reached on Feb. 26, 1995.

- Assistant Secretary of State for Human Rights John Shattuck held 2 days of fruitless talks in Beijing in mid-January 1995. In February 1995, Beijing complained about the annual U.S. State Department report on China's human rights conditions and strongly protested U.S. support for a UN resolution critical of Chinese human rights.

- Energy Secretary O'Leary oversaw the signing of agreements in China with a reported value of several billion dollars.

- -The U.S. and China reached agreement on Mar. 12, 1995, regarding market access disputes and China's WTO membership.

U.S. Policy Approaches

Despite recurring friction in U.S.-China relations, many in Beijing see the United States as the key link in the international balance of power affecting Chinese interests. This judgement goes far toward explaining why Chinese leaders so avidly seek a visit to China by President Clinton. It would signal to all at home and abroad that the United States has muffled its opposition to and endorses cooperation with the Beijing government. Of course, some Chinese leaders remain deeply suspicious of U.S. motives. They believe the U.S. Government is conspiring to weaken and undermine the Chinese leadership and "hold back" China from a more prominent position in world affairs.

There is general agreement in the United States that Washington should use its influence to have Beijing conform to international norms and to foster changes over time in China's political, economic, and security systems compatible with U.S. interests. At the same time, there is little agreement in Washington on how the United States should achieve these objectives. In general, there are three approaches influencing U.S. China policy and little indication as to which approach will ultimately prevail.

First is a moderate, "engaged," and less confrontational posture toward China. This is favored by some in the Clinton Administration, Congress, and elsewhere. Some are concerned with perceived fundamental weaknesses in China and urge a moderate approach out of fear that to do otherwise could promote divisions in and a possible breakup of China, with potentially disastrous consequences for U.S. interests in Asian stability and prosperity. Others are impressed with China's growing economic and national strength and the opportunities this provides for the United States. They promote close U.S. engagement with China as the most appropriate way to guide the newly emerging power into channels of international activity compatible with American interests.

Underlying a moderate approach sometimes is a belief that trends in China are moving inexorably in the "right" direction. That is, China is becoming increasingly interdependent economically with its neighbors and the developed countries of the West and is seen as increasingly unlikely to take disruptive action that would upset these advantageous international economic relationships. In addition, greater wealth in China is seen as pushing Chinese society in directions that seem certain to develop a materially better-off, more educated and cosmopolitan populace that will over time press its government for greater representation, political pluralism, and democracy. Therefore, according to this view, U.S. policy should seek to work ever more closely with China in order to encourage these positive long-term trends.

A second approach encourages U.S. leaders to be less accommodating. This is held by some U.S. advocates inside and outside of the U.S. Government. Rather than trying to persuade Beijing of the advantages of international cooperation, the United States is advised to keep military forces as a counterweight to rising Chinese power in Asia; to remain firm in dealing with economic, arms proliferation, and other disputes with China; and to work closely with traditional U.S. allies and friends along China's periphery in order to deal with any suspected assertiveness or disruption from Beijing.

Proponents of this policy stress that Beijing officials still view the world as a state-centered, competitive environment where interdependence counts for little. China's leaders are seen as determined to use whatever means is at their disposal to increase China's wealth and power and as biding their time and conforming to many international norms as China builds economic strength. Once it succeeds with economic modernization, the argument goes, Beijing will be disinclined to curb its narrow nationalistic or other ambitions out of a need for international interdependence or other concerns.

A third approach is based on the premise that the political system in China needs to be changed before the United States has any real hope of reaching a constructive relationship with China. Beijing's communist leaders are inherently incapable of long-term positive ties with the United States. U.S. policy should focus on mechanisms to change China from within while maintaining a vigilant posture to deal with disruptive Chinese foreign policy actions in Asian and world affairs. This view is favored by some U.S. officials and others.

Outlook for U.S. Policy

Given the continued wide range of opinion in the United States over the appropriate U.S. policy toward China, it appears likely that U.S. policy will continue its recent pattern of trying to accommodate all three approaches. On some issues, such as linking MFN treatment and human rights, the U.S. Government has seen U.S. interests best served by an approach that meets PRC concerns. On others, such as intellectual property rights protection and proliferation of missile technology, the United States Government seems prepared to threaten sanctions or to withhold benefits from Beijing until it conforms to norms acceptable to the United States. Meanwhile, although many U.S. officials would see as counterproductive any declaration by the U.S. Government that a policy goal was to change China's system of government, there is a widespread assumption that greater U.S. "engagement" will encourage such desirable changes.

Whether the U.S. Government policy synthesis of these three tendencies is done smoothly or is accompanied by the often strident policy debates accompanying U.S. China policy decisions in recent years depends partly on U.S. leadership. Several suggested rules of thumb that U.S. leaders could consider when determining whether the United States should try to accommodate, confront, or change China on a particular policy issue include:

1. How important is the issue at hand for U.S. interests? (In general, the more important the U.S. interests at stake, the less accommodating and more forceful U.S. leaders should be.)

2. How does the issue at hand fit in with other broader U.S. strategies. (Presumably, some U.S. officials would be inclined to soft pedal relatively minor disputes with China when they are pressing for broader gains elsewhere.)

3. How much leverage does the United States have over the PRC on this issue? (In general, the greater the degree of U.S. leverage, the easer it is for U.S. leaders to press for their demands.)

4. What are the attitudes of U.S. allies and associates? (If they do not support a firm U.S. stance, U.S. efforts to pressure China may be quixotic and counterproductive.)

5. How sensitive is the issue at hand to the PRC? (Recent practice has indicated that Beijing has shown less sensitivity and greater flexibility on international economic issues, and has shown more sensitivity and less flexibility on issues involving political control and territorial claims. Many analysts believe that PRC leadership flexibility on sensitive issues will be restricted for a time as a result of the decline of Deng Xiaoping's health and the ongoing leadership succession struggle.

Other suggestions to consider when dealing with China on specific issues include:

1. Know your "bottom line" -- Chinese officials will press for the advantage until they run up against it.

2. Where possible, try to press China for change in an overall friendly and respectful atmosphere (this reduces suspicions in Beijing regarding the alleged overall hostile intent of U.S policymakers toward China -- suspicions which greatly limit PRC flexibility).

3. Where possible, rather than confront Beijing head-on, work with U.S. allies, associates, and other intentional leaders to create an atmosphere that would prompt Beijing to change in directions favored by the United States. (The United States used this approach in part to get Beijing to go along with international sanctions and military action against Libya and Iraq; with planned sanctions against North Korea; and with provisions of the 1991 Cambodian peace accord that were opposed by Beijing's former client, the Khmer Rouge.)

LEGISLATION

H.R. 1147 (Lantos)
Encourages liberalization in the People's Republic of China and Tibet. Introduced Mar. 7, 1995; referred to Committee on International Relations.

H.Res. 114 (Gilman)
Expresses the sense of the House of Representatives that the United States should support peace and stability in the South China Sea. Introduced Mar. 10, 1995; referred to Committee on International Relations.

CHRONOLOGY

03/27/95--- Clinton Administration efforts to come up with a code of conduct for U.S. firms doing business in China and elsewhere were criticized by congressional and other U.S. human rights advocates.

03/22/95--- A U.S. warship visited China for the first time in 6 years.

03/12/95--- The United States and China reached agreement on market access disputes and on China's entry into the WTO.

02/26/95--- A U.S.-Chinese agreement on intellectual property rights disputes was signed, averting a U.S.-China trade conflict threatening $2 billion in annual trade.

02/22/95--- China protested U.S. support for a UN resolution critical of Chinese human rights conditions.

02/20/95--- Energy Secretary O'Leary oversaw the signing of agreements valued at $2 billion during a visit to China.

02/04/95--- The United States imposed trade sanctions worth over $1 billion because of an intellectual property rights dispute with China; China immediately announced comparable sanctions against the United States.

02/01/95--- The U.S. trade deficit with China grew in 1994 to almost $ 30 billion on the basis of total annual trade of about $ 39 billion.

01/16/95--- Chinese president Jiang Zemin complained about the "constant troubles" in U.S.-China relations.

01/15/95--- Assistant Secretary Shattuck left Beijing after fruitless talks on human rights.

12/31/94--- USTR Kantor threatened sanctions worth over $ 1 billion if Beijing does not meet U.S. intellectual property rights conditions by Feb 4.

12/14/94--- Press reports said Beijing had canceled Secretary Pena's planned visit to China on account of his visit to Taiwan earlier in the month.

12/07/94 --- The *Los Angeles Times* reported that China had threatened to end commercial agreements with the United States if the Clinton Administration did not acquiesce in China's entry into GATT by year's end.

11/14/94 --- President Clinton held an official meeting with China's president at the APEC leaders' meeting in Indonesia.

10/19/94 --- Defense Secretary Perry ended four days of talks in Beijing.

10/07/94 --- China conducted a nuclear weapons test, its second in 1994.

10/04/94 --- The United States and China signed an agreement allowing the export of U.S. high technology satellites to China that were halted as an Aug. 23, 1993, sanction against Beijing's secret transfer of missile components and technology to Pakistan. China agreed that once the sanctions are waived, it will abide by the rules of the international Missile Technology Control Regime (MTCR).

09/24/94 --- U.S. Air Force Chief of Staff McPeak met with senior military leaders in Beijing

09/07/94 --- The Clinton Administration disclosed a Taiwan policy review that promised modestly increased contacts with Taiwan. Beijing issued an official protest.

09/02/94 --- Secretary of Commerce Brown left China after a visit marked by the signing of over $5 billion worth of contracts involving U.S. business.

08/17/94 -- Secretary of Defense Perry met with a visiting deputy Chief of Staff of the Chinese Army.

08/09/94 -- The House passed legislation extending MFN to China and delinking it from human rights concerns, and rejected a bill by Representative Pelosi to limit the extension of MFN to China.

06/10/94 --- China conducted a nuclear weapons test. The United States expressed regret.

05/28/94 -- The arms import embargo against China went into effect.

05/26/94 -- President Clinton announced that he was recommending the renewal of China's MFN status, "delinking" it from China's human rights record, and imposing an embargo on arms imports from China.

03/11/94 -- Secretary of State Warren Christopher arrived in Beijing for three days of talks about human rights and China's MFN status.

BEST COPY AVAILABLE

01/07/94 -- The United States announced it would begin non-proliferation talks with China in Washington on Jan. 26, 1994.

01/06/94 -- The U.S. Commerce Department was authorized to issue export licenses for 3 U.S. communications satellites to China.

01/06/94 -- The United States announced it would slash China's textile quotas by 25-30% in retaliation for China's illegal textile shipments.

11/19/93 -- The Ministerial and Leaders' Meeting of APEC began in Seattle, hosted by the United States.

11/18/93 -- Secretary of State Christopher announced the United States was dropping its opposition to the sale of an $8 million Cray supercomputer to China.

11/17/93 -- 270 Members of the House of Representatives signed a letter to President Clinton expressing their concern over China's lack of progress in meeting human rights objectives

11/03/93 -- U.S.-China military talks in Beijing concluded with an agreement to a "modest" agenda of future dialogue and professional exchanges on such topics as international peacekeeping operations and conversion of defense industries to civilian use.

11/01/93 -- Assistant Secretary of Defense Charles Freeman began two days of talks in Beijing; they were the highest-level military talks between the two countries since Tiananmen Square in 1989.

10/23/93 -- U.S. Deputy Trade Representative Charlene Barshevsky went to Beijing to discuss general trade issues

10/20/93 -- U.S. Secretary of State Warren Christopher said China's MFN status next year was in danger unless Beijing improved its record on human rights, weapons sales, and trade practices.

10/15/93 -- Secretary of Agriculture Mike Espy went to Beijing to discuss China's purchases of U.S. grains, especially wheat

10/12/93 -- John Shattuck, Assistant Secretary of State for Human Rights, visited Beijing to initiate an ongoing dialogue on human rights issues.

10/05/93 -- China conducted an underground nuclear test, despite a U.S. call in July for an informal ban on such testing.

09/30/93 -- Secretary of State Warren Christopher met with China's Foreign Minister Qian Qichen in New York.

09/25/93 -- National Security Advisor Anthony Lake met China's Ambassador to the U.S., Li Daoyu, to initiate efforts to restore high-level U.S.-China contacts across the board.

09/23/93 -- The International Olympics Committee rejected Beijing's bid for the 2000 Olympics in favor of the bid of Sydney, Australia.

09/04/93 -- An inspection, watched by U.S. observers, of the Chinese ship, the Yinhe, revealed no chemical weapons ingredients on board. The Chinese filed another strong protest after the search.

08/24/93 -- The United States announced it would impose on China the sanctions required by U.S. law because of China's sale of missile technology to Pakistan. The Chinese government lodged a strong protest.

08/13/93 -- Chinese labor activist Han Dongfang was stripped of his passport and expelled from China, without explanation.

08/08/93 -- Beijing lodged a strong protest accusing Washington of harassing a Chinese ship, the Yinhe. Washington said the ship was believed to be carrying chemical weapons bound for Iran.

07/23/93 -- According to later accounts by Beijing, U.S. Navy ships began shadowing the Chinese ship, the Yinhe.

05/28/93 -- President Clinton requested authority to renew China's MFN status for another year, but indicated that he would consider new human rights criteria in considering the MFN renewal in 1994.

05/11/93 -- U.S. Assistant Secretary of State Winston Lord warned Chinese leaders in Beijing that conditions were likely to be attached to their future MFN status. Lord was the most senior Clinton Administration official to have visited China to date.

04/13/93 -- The British and Chinese governments jointly announced that talks on the dispute over Hong Kong would begin on Apr. 22, 1993.

01/19/93 -- President Clinton named former Ambassador to China Winston Lord as his designee for Assistant Secretary of State for East Asia and Pacific Affairs. Ambassador Lord had been outspokenly critical of China in recent years.

CHINA AS A SECURITY CONCERN IN ASIA: PERCEPTIONS, ASSESSMENT, AND U.S. OPTIONS

SUMMARY

Americans disagree as to whether or not China poses a serious security concern for U.S. interests in peace and security in Asia and the Pacific. Many point to rising Chinese economic power, defense spending and sometimes assertive military actions to warn of Chinese military-backed expansion. Others judge that the main danger comes from China's weakness. They argue that a perceived emerging breakdown in government authority in China would prompt regional disorder and refugee flows seriously undermining Asian stability. Still others see the Chinese "threat" as exaggerated. They stress that Beijing leaders are in control of the country and see their interests at least for the time being as best served by accommodation to their richer and generally better armed neighbors.

An assessment of factors arguing in favor and against viewing China as a military threat concludes that:

o China's current military capabilities generally show little sign of China posing a direct threat to the United States for a decade or longer;

o The main perceived danger over the next few years focuses on areas in the Asian-Pacific region where China and other countries important to the U.S. contest territorial claims; examples include the South China Sea, Taiwan, and others;

o Perceived Chinese expansionist designs to control these contested areas are currently held in check by limitations in China's military capabilities; insufficient justification in terms of important Chinese security, economic or political interests; and the likely negative foreign reaction to assertive Chinese action. Each of these factors in subject to change.

U.S. policy makers have a range of unilateral, bilateral and multilateral options for dealing with China's military power. They involve both positive steps (e.g., resumed high-level U.S.-Chinese military exchanges designed to reassure both sides' of the others' intentions) and negative measures (e.g., establishing a regional security arrangements designed to curb China's military power).

Reprinted from China as a Security Concern in Asia: Perceptions, Assessment, and U.S. Options, by Robert G. Sutter and Shirley Kan. Washington, Congressional Research Service, 1994. 28 p. (CRS Report no. 95-46 S, Dec. 22, 1994)

TABLE OF CONTENTS

INTRODUCTION 1

HOW IS CHINA SEEN AS A SECURITY CONCERN TO U.S. INTERESTS -- VARIED INTERPRETATIONS 4

FACTORS FAVORING VIEWING CHINA AS A CURRENT OR EMERGING THREAT 7
    Capabilities 7
    Intentions 12

FACTORS ARGUING AGAINST VIEWING CHINA AS A CURRENT OR EMERGING THREAT 16
    Capabilities 16
    Intentions 20

ASSESSMENT 21

INDICATORS OF CHINESE MILITARY THREAT 23

U.S. POLICY OPTIONS 24

MAPS

1. MAP 1 27
2. MAP 2: Spratly Islands Dispute 28

ACKNOWLEDGEMENTS

This report was originally prepared at the request of the House Foreign Affairs Committee and was released in January 1994 for general congressional use with the Committee's permission. CRS updated the report for general congressional use in December 1994.

CHINA AS A SECURITY CONCERN IN ASIA: PERCEPTIONS, ASSESSMENT, AND U.S. OPTIONS

INTRODUCTION

Congressional concern over a perceived Chinese security threat to U.S. interests in peace and stability in the Asian-Pacific region has grown markedly in recent years. The end of the cold war undermined the previous, two decades-long positive American view of Chinese military power in Asia. That view saw Chinese forces as a counterweight to suspected Soviet expansion. The collapse of the Soviet Union created a power vacuum and prompted policy recalculations by all powers concerned with Asian security.[1]

U.S. policy after the cold war has reduced U.S. defense budgets and cut back on U.S. forward-deployed forces, including those in the Asian-Pacific region. China's approach has been different. It has reallocated military resources away from past emphasis on countering the Soviet threat along the northern frontier. Beijing has placed new emphasis on upgrading Chinese military capabilities and projecting military power--particularly air and naval power--around the periphery of China.

After a decade of declining resources in the 1980s, Chinese defense budgets began to rise substantially. They have been fed by China's remarkable recent record of economic growth--over 13 percent annually during the last two years. Beijing also entered into negotiations with Russia and other potential suppliers of sophisticated military equipment or military-related technology. Several deals have been reached, resulting in the transfer of sophisticated Russian jet fighters and other equipment significantly increasing the power projection capabilities of Chinese defense forces.[2]

Known collectively as the People's Liberation Army (PLA), China's military has long been one of the largest military forces in the world. During the cold war, the United States tried to "contain" China through defense arrangements in Asia and the deployment of hundreds of thousands of U.S. troops around China's periphery. The Sino-U.S. rapprochement begun by President Nixon in the 1970s saw a more benign American view of Chinese military intentions. In the early 1980s the United States entered into an increasingly close military relationship with China, resulting in American agreement to sell sophisticated military equipment including $ 0.5 billion of technology and equipment to upgrade the capabilities of Chinese jet interceptors. Such sales were seen as useful in helping to stabilize the Asian-Pacific region in the face of Soviet power and aggression.[3]

---

[1] For background, see, among others, America's Role in Asia, Asia Foundation, Center for Asian and Pacific Affairs, San Francisco, 1993, 60 p.

[2] See periodic coverage of these developments in the weekly Far Eastern Economic Review. For example, see article by Tai Ming Cheung, "China Buying Spree," in July 8, 1993 edition. See also, Swaine, Michael D., *The Modernization of the Chinese People's Liberation Army*, National Bureau of Asian Research, October 1994.

The crackdown by the Chinese government, including major elements of the Chinese military, on pro-democracy demonstrators in Beijing and other Chinese cities in June 1989 had a major impact on American attitudes toward the Chinese government, and the Chinese military, in particular. U.S. military sales and high-level U.S. contacts with the Chinese military were cut off as a signal of American opposition to the Chinese crackdown. Americans who had been hopeful that post-Mao Zedong China was moving inexorably toward greater economic reform and political openness now had a different view of China's prospects. In particular, they viewed Chinese Communist authorities as determined to use the Chinese military as a coercive force to squelch dissent and maintain the Communists' monopoly of power. American concern about China was reinforced by reports of Chinese arms sales and sales of sensitive military technology to unstable areas of the world. The Chinese sales appeared to challenge the arms control mechanisms favored by U.S. leaders in order to support stability in the post-cold war international order.[4] Reports of China's extraordinary economic growth (12.8 percent in 1992, and 13.4 percent in 1993) prompted added U.S. concerns that Beijing might use its growing economic power to buttress military expansion aboard.

Against this backdrop, many in Congress, the U.S. media, and elsewhere discerned dangerous trends in China's recent military activities. Senate Majority Leader George Mitchell warned, in introducing legislation on April 22, 1993, that the rise in defense budgets and the acquisition of sophisticated military equipment by China "are rapidly transforming China into a major military power in Asia." He went on:

> Such a threatening military transformation raises serious long-term national security concerns for the United States and our Asian allies.[5]

On June 11, 1993, the House Foreign Affairs Committee reported foreign policy legislation for the year with a pointed warning about the security situation in the East Asian region. "Of greatest concern," it said, " are the arms sales of the PRC to countries of the region and the acquisition by the PRC of various power projection capabilities that lack any emergent threat to justify them."[6]

---

[3] See Kerry Dumbaugh and Richard Grimmett, "Arms Sales to China: The Limits to U.S.-Chinese Military Cooperation," *The Washington Quarterly*, summer 1986.

[4] See, *Chinese Missile and Nuclear Proliferation: Issues for Congress*, by Shirley Kan, CRS Issue Brief 92056 (updated regularly).

[5] Congressional Record, April 22, 1993, p. S4826.

Meanwhile, American media treatment of alleged threatening Chinese military activities featured articles on the Chinese military danger from such popular vehicles as *Time* magazine ("Thunder Out of China"--cover story April 12, 1993). American foreign policy opinion leaders have given new focus to the Asian security balance and the role of the Chinese military in articles in such influential journals as *Foreign Affairs*.[7] Prominent international security commentator and Harvard University Professor Samuel Huntington went so far as to warn of a Chinese link up with authoritarian regimes in the Middle East to form an alignment of like-minded "civilizations" that would pose the greatest challenge to U.S. foreign policy in the years ahead.[8]

It is clear that U.S. views of China's military danger to Asian and world stability have changed in recent years, but recent media and other commentary have not provided a clear outline as to what are the current status, likely prospects, and implications for U.S. interests of Chinese military developments. Indeed, American views contrary to those noted above are voiced by American leaders emphasizing the alleged defensive intent of Chinese military developments and the need for the United States to resume close relations with the Chinese PLA. Most notably, as part of its shift toward a more "engaged" policy with China begun in late 1993, involving renewed regular high-level contacts between U.S. and Chinese leaders, the Clinton Administration, in October 1993, resumed high level contacts with the Chinese military that had been cut off in the aftermath of the Tiananmen incident. Administration officials were reported to have reassured the Chinese military and political leaders that they did not consider China to pose a military threat to the United States. A highlight of this new effort came during Secretary of Defense William Perry's meetings with high-level Chinese defense and political leaders in October 1994.[9]

---

[6] U.S. Congress, Report 103-126, p. 91. It is important to note that the China threat did not figure prominently in the U.S. Defense Department's recent security review. See, DoD press release 403.93, September 1, 1993.

[7] Michael Klare, The Next Great Arms Race, *Foreign Affairs*, summer 1993.

[8] Samuel Huntington, "The Clash of Civilizations,?" *Foreign Affairs*, summer 1993.

[9] This viewpoint was noted on several occasions during interviews in Washington, D.C. in 1993. See coverage in *The Washington Post*, November 7, 1993, p. C. 3., and *The New York Times*, November 3, 1993, p. 11. See also Atlantic Council and National Committee on U.S.-China Relations, The U.S. and China Relations At A Crossroads, February 1993, 46 p. It is important to note that the China threat did not figure prominently in the U.S. Defense Department's 1993 security review. See DoD press release 403.93, September 1, 1993. On Perry's visit to China, see U.S. Department of State, *Dispatch*, October 31, 1994.

This report is designed to help Members of Congress and their staff determine their views of China's military threat as they deliberate over U.S. policy toward China in the post cold war period. To provide perspective on this issue, the report first examines the wide range of ways China currently is seen as a threat or concern to U.S. security interests. The main section of the report follows, giving a balance sheet approach. It first assesses the factors supporting viewing China as a current or emerging security threat, and then reviewing factors that argue against viewing China as a current or emerging security threat. The time frame considered involves Chinese actions over the next 5-10 years.

On balance the authors find that if Chinese military activities are likely to threaten U.S. interests in Asian stability in the next few years, they are most likely to do so by asserting, through military means, Chinese control over claimed disputed territory around China's periphery, especially in the South China Sea and the Taiwan Strait. They offer a brief analysis of the factors--pro and con--governing a possible Chinese decision to resort to more forceful actions to defend their territorial claims in these areas.

To aid U.S. policymakers in assessing future Chinese actions, the report notes factors seen as likely to indicate a more or less assertive or threatening Chinese military posture. In conclusion, the report examines relevant U.S. policy options to deal with Chinese military developments.

The report is based on the variety of published sources cited throughout, but also benefitted greatly from 40 in-depth interviews conducted with experienced American, Japanese, Taiwan, Chinese, Hong Kong, Malaysian, and other security specialists carried out in 1993 and 1994.

HOW IS CHINA SEEN AS A SECURITY CONCERN TO U.S. INTERESTS--VARIED INTERPRETATIONS

Interviews with U.S. and international security affairs specialists and a review of the wide range of analyses and commentaries on China's military and related activities show that China's security threat to U.S. interests is seen in distinct and sometimes contradictory ways.[10]

a. China's Military Threat. There appears to be a general agreement among specialists that China, at present, does not pose a significant direct military threat to the United States. Its military, economic and other capabilities are seen as too limited to pose such a danger in the near future (5-10 years). A number of knowledgeable U.S. and foreign analysts see potential for China to challenge and possibly threaten the United States over the longer term (20-plus years). Of the nations of the world, in their view, China is among the very few that have the mix of economic, political, and military factors that could lead to the emergence of national power capable of directly challenging the United States in the first half of the 21st Century.

---

[10] For background, see among others, *Janes Intelligence Review*, April 1993, Vol. 5, No. 4., James Lilley. Testimony before House Foreign Affairs Committee, May 20, 1993. U.S.-Japan Policy Dialogue on China: Security Issues, Asia Society, 1993, 46 p. See also the work of Michael Swaine cited in footnote 2 and the article on China's military power by Thomas McNaugher published in *The Brookings Review*, summer 1994.

In the interim, the main danger for U.S. interests coming from China focuses on U.S. interests in preserving and strengthening the peace and stability of the Asian-Pacific region. There is considerable debate among specialists as to whether or not China is likely to embark on an expansionist course disruptive to stability in the area. This debate, over China's ability and intent to threaten U.S. interests in Asian-Pacific stability, represents the central question addressed in this report.

b. China as a proliferator of weapons of mass destruction, manufacturing technology for such weapons, and related delivery systems. Chinese military strategy against both the United States and the Soviet Union focused during much of the Maoist period (1949-1976) on developing reliable, hard-to-locate weapon systems of mass destruction--i.e.; nuclear missiles and bombs. These weapons gave Chinese leaders the option of a second strike against a stronger adversary and thus were seen to deter a feared preemptive nuclear attack, especially from the USSR. For many years, China shared such technology with a select group of countries, notably Pakistan, whose defense had a direct bearing on China's own national security. At the same time, China has a long record of selling materials, technology, and related expertise in these sensitive areas for profit.[11]

In the past, U.S. and other western-aligned international observers tended to play down the consequences of these Chinese actions. They appeared more interested in sustaining a broadly cooperative relationship with Beijing in the cold war competition with the Soviet Union. U.S. views changed markedly in the post-cold war environment. This occurred especially after the 1991-1992 U.S.-led allied confrontation with Iraq, which was suspected of developing mass destruction weapons in order to dominate world oil supplies. Fearful of having to confront authoritarian, expansionist leaders armed with nuclear or other mass destruction weapons and related delivery systems, U.S. officials now saw China's proliferation practices as a major threat to U.S. interests. American officials have had some success in recent years in leading international efforts to press China to adhere to international control regimes regarding nuclear weapons and related missile delivery systems. In this effort, they have used leverage provided by China's dependence on trade and other relations with the U.S. and other developed countries concerned with proliferation.

c. China's Economic Threat. The strength, size and vibrancy of the Chinese economy has attracted positive international attention but also has caused considerable uneasiness among China's major trading partners, notably Japan. Although China's economy also was large and grew rapidly in the Maoist period, the regime's "self reliant" development strategy meant that

---

[11] See CRS Issue Brief 92056, op. cit.

Chinese interaction with the world economy was limited and therefore the consequences of developments in China for other nations were generally not large.

The post-Mao economic reforms have changed that situation.[12] On the one hand, the Chinese economy is larger than ever and is growing at a rate surpassing that of the Maoist period and mirroring the rapid rise that some other Asian countries experienced during economic "take off" in the latter 20th century. At the same time, the Chinese "open door" policies have put aside Maoist autarchy in favor of integrating the Chinese economy with the vibrant economies of Asia and the world. In the past 15 years, Chinese foreign trade and foreign investment in China have grown at rates far surpassing China's overall economic growth rate. The Chinese economy today depends more on foreign trade than other large countries like Russia, India and Brazil, and even surpasses the United States and Japan. China is now among the top 15 world traders and rising fast. Much of this trade stems from investment from inside China and from abroad in manufacturing industries designed to produce goods for export. To a considerable degree, China has become a manufacturing platform for exports to many countries of the world.

Against this background, analysts in Asia and the west sometimes see China's economic power and potential as a current or prospective threat to Asian stability or the stability of international commerce in certain commodities. On the one hand, Chinese leaders may choose to use this vibrant economic growth to support military modernization and a more assertive policy toward China's neighbors. On the other hand, Chinese enterprises may choose to direct their manufacturing capabilities into world markets sensitive to the rest of Asia and the west. As one Japanese industrialist said at a public meeting in Osaka in June 1993, "China has the potential to produce 20 million color television sets a year; Japan will have to adjust."[13]

In this view, the size, scope and capabilities of the Chinese economy, when combined with the fact that the economic system in China remains subject to state control and direction in several important respects, means that China is seen as having a great ability to "surge." This involves targeting production in certain areas, dominating markets and causing major disruption and dislocation for trading partners and competitors. Of course, the larger and more resilient world economies (e.g., the United States Japan) doubtless are better able to adjust to Chinese growth, but others (e.g., Taiwan) may find themselves too small and vulnerable to adjust gracefully to a directed or predatory Chinese economic initiative.

d. The Threat of a Weakened China. Seemingly at odds with above lines of analyses, which stress China's growing military or economic power, is the view held by several prominent specialists in Asia and the west which worries about the dangers to Asian stability posed by a markedly weakened China.[14] The concern focuses on a possible breakdown in government authority in China, such as was seen in a number of Communist countries in recent years. The size and scope of problems in China suggest that such a breakdown could be accompanied by largescale economic dislocation, armed conflict, and massive outflows of migrants. For the crowded and often strongly homogeneous countries along China's eastern rim, and for the sparsely populated and poorly controlled countries to China's north and west, such outflows of migrants would pose a national security threat of the first order. Asian analysts recall the massive difficulties caused to the relatively less crowded countries of southeast Asia by the exodus of one million "boat people" from Vietnam in the late 1970s and early 1980s. They expect that since China's population today is 20 times that of Vietnam at that time, any significant outflow from China would have major consequences for the entire region.

---

[12] See, most recently, CIA, China's Economy in 1993 and 1994: The Search for a Soft Landing, July 22, 1994, 22 p.

[13] U.S. Information Service Forum on Asian Issues, Osaka, Japan, June 4, 1993.

FACTORS FAVORING VIEWING CHINA AS A CURRENT OR EMERGING THREAT

Several developments in recent years have contributed to a view of China as an emerging threat to U.S. security interests. They involve China's accelerated military buildup and expanding armed presence, assertive warnings and military maneuvers concerning some disputes, and history of using force to settle disputes. They can be divided into two broad groups: developments in China's military capabilities, and development in Chinese intentions.

Capabilities

Higher Priority for Defense/Growth In Defense Spending

China's defense spending has grown markedly since the PLA played a key role in cracking down on political dissent at Tiananmen Square and other parts of China in 1989. Analysts have viewed the spending increase partly as a reflection of party leaders' concern to beef up the capabilities and insure the loyalty of the PLA during a period of crisis. By 1990, the Communist leadership was no longer speaking of military modernization as something that would follow economic modernization, as had been the case for most of the previous decade. Rather, the party leadership endorsed "stepped up" efforts in national defense along with economic development.[15]

---

[14] This view was held by the majority of Japanese participants at a U.S.-Japan conference on China sponsored by the Japan Institute of International Affairs, Tokyo, July 14-16, 1993. A similar viewpoint dominated an international conference on the theme "China Deconstructs" held at the Woodrow Wilson Center of Scholars, Washington D.C., in late 1993.

There are, of course, still other ways to view China as threatening. One reviewer stressed that China has become a major danger to U.S. security through espionage and purchases of sensitive U.S. military related technology, Faxed message, December 20, 1993.

The end of the cold war and collapse of the Soviet Union by 1991 were duly noted by Chinese planners but resulted in no slackening in Chinese defense increases. Reports suggested that Chinese planners were alarmed by the results of the 1991-1992 Persian Gulf War, which showed how backward and vulnerable Iraqi forces were in the face of modern western firepower. There were many parallels between Iraqi and Chinese force structures, and Beijing planners were reportedly determined to use increased spending to modernize the abilities of their forces to deal with western arms.

The proof of China's shift in emphasis was seen in official defense spending statistics. After declining during the 1980s, China reported that defense spending has increased by over 10 percent every year since 1989 and by 1993 had reached $7.4 billion. (The *Economist* reported in mid-1994 that Institute for International Strategic Studies analysts had concluded that China's actual defense spending in 1993 was somewhere between $27 and $43 billion, on a purchasing power parity basis.) [16]

China's actual military expenditures may be two to three times the official budget for defense. This is because additional resources come to the PLA from other ministries' budgets, arms sales profits, and civilian businesses owned or managed by the PLA.

The latter source is hard to estimate (some estimates run as high as $10 billion a year) but is clearly growing in importance for Chinese defense spending. China boasts of significant defense "conversion" since reforms began more than a decade ago, and reports that civilian products account for about 65 percent of total output value of the defense industry enterprises.[17] China has actually diversified the products of many such enterprises, while maintaining certain weapons production lines and selling arms. The military has profited from its control over transportation networks, airports, and ports.

PLA business ventures include Beijing's five-star Palace Hotel and other hotels. Other major defense companies include China Great Wall Industry Corporation which offers satellite launching services to foreign customers. The Poly Group Corp. is run by the PLA's General Staff Department, while the General Logistics Department has Xinxing Corp. China National Nuclear

---

[15] For background about the development of the Chinese military up to late 1991, see *China's Military: Roles and Implications for U.S. Policy Toward China*, by Shirley Kan, CRS Report 91-731, October 3, 1991.

[16] See sources noted below as well as Tai Ming Cheung. "The Interaction Between Economics and Security for China's External Relations," San Diego, Conference Paper, May 1993 and *The Economist*, July 9, 1994, p.39.

[17] See among others coverage in *Far Eastern Economic Review*, October 14, 1993.

Industry Corp. has contracts to build nuclear power reactors in Pakistan and Iran. Norinco sells arms abroad, including AK-47 semiautomatic rifles in the United States.[18] In 1990, the United States prevented CATIC (China Aero-Technology Import and Export Corp.) a PLA-connected company, from acquiring a U.S. aviation company that would have provided the PLA with restricted technology subject to export controls.[19] PLA-supported companies (from large conglomerates to small operations) may number more than 20,000, and the number is growing. The *New York Times* reported in mid 1994 that some western analysts conclude that profits from PLA enterprises are not benefitting military modernization. Instead, profits are being invested in other commercial enterprises. [20]

Regarding foreign arms sales, China emerged in the 1980s as the fifth-ranked arms supplier to the Third World. The total value of Chinese conventional arms deliveries to developing countries in 1985-1992 is estimated at $12.3 billion.[21]

In addition to profits flowing to the PLA, China has also amassed significant foreign reserves which might be directed at military modernization. Chinese foreign exchange reserves reached $46 billion in 1992 (the sixth largest in the world).[22] China has also gained hard currency from increasing trade surpluses. The U.S. trade deficit with China, for example, has increased to $18.2 billion in 1992 (second only to Japan) and rose to about $23 billion in 1993. It is expected to reach over $28 billion for 1994.[23]

Acquisitions of Foreign Advanced Weapons.

China has been able to channel some of its increased defense budget and substantial hard currency earnings to procurement of advanced weapons abroad. Denied U.S. arms since 1989, China has purchased Russian fighters, other aircraft, and other more advanced weapons technology. Russian arms sales in 1991-92 to China totaled about $2 billion. In fall 1993, a five-year military cooperation agreement was signed which was expected to significantly broaden the transfer of military technology to China. The Chinese reportedly were permitted to recruit large numbers (over 1,000) of Russian weapons scientists to work in China, notably in research institutes under the Aeronautics Ministry. Meanwhile, hundreds of Chinese defense scientists have been working at Russian aerospace institutes.[24] Significant Israeli transfers to China have also been reported.[25]

---

[18] John Pomfret, "Chinese Army Now Major U.S. Arms Merchant," *Washington Post*, March 4, 1993. However, since July 1989, semiautomatic assault rifles have been barred from importation into the United States.

[19] Andrew Rosenthal, "Bush, Citing Security Law, Voids Sale of Aviation Concern to China," *New York Times*, February 3, 1990, p. 1.

[20] Tai Ming Cheung, "Serve the People," *Far Eastern Economic Review*, October 14, 1993, p. 64., *New York Times*, May 24, 1994, p. A 6.

[21] Richard F. Grimmett, *Conventional Arms Transfers to the Third World, 1985-1992*, CRS Report for Congress, July 19, 1993.

[22] International Monetary Fund, *International Financial Statistics*.

[23] See, for example, *China-U.S. Trade Issues*, CRS Issue Brief, by Wayne M. Morrison, updated regularly.

China is believed to be focused on obtaining a greater power-projection capability, centered on superior air cover and a blue-water navy. In addition, sales to China of advanced missile and nuclear technology (from Russia) pose concerns for U.S. policymakers, in part because of the potential for retransfer to buyers of Chinese supplies.

Some consider China's arms purchases to be the cause of an imbalance of power in Asia, particularly in the Taiwan Strait.[26] Arms sales, such as U.S. F-16A/B and French Mirage fighters, to Taiwan are meant to deter Chinese aggression and maintain stability, they say.

Major recent PLA acquisitions reported since 1990 have been:

- 24 Mil Mi17 helicopters from the Soviet Union
- 26 Su-27 Soviet fighters from Russia worth about $1 billion, based at Wuhu (100km south of Nanjing); negotiating an additional 26 Su-27s, including acquiring domestic production rights
- 10 Il-76 heavy transport planes from Russia
- 50 T-72 tanks from Russia
- U.S. Patriot missile technology (allegedly from Israel)
- In-flight refueling technology (perhaps from Israel, Russia, or Iran)
- Up to 100 Russian S-300 surface-to-air missiles (similar to the Patriot), with 4 mobile launchers
- Rocket engines and missile guidance technology from Russia
- Uranium enrichment technology and nuclear reactors from Russia
- AEW (airborne early warning), missile (SSMs, SAMs, and AAMs), and tank armor technology from Israel
- U.S. Stinger anti-aircraft missiles (perhaps from Pakistan)

---

[24] John Fialka, "U.S. Faces China's Success in Skimming Cream of Weapons Experts from Russia," the *Wall Street Journal*, October 14, 1993, p. A12; the *New York Times*, November 10, 1993; *Jane's Defense Weekly*, February 19, 1994.

[25] The CIA's response to questions from the Senate Governmental Affairs Committee (hearing date February 24, 1993) states that more than a decade of acquiring defense technologies from Israel may have cost China "several billion dollars." Israeli Prime Minister on October 13, 1993, acknowledged Israeli arms sales to China, estimating their value in 1992 to be $60 million.

[26] Michael T. Klare, "The Next Great Arms Race," *Foreign Affairs* (summer 1993), highlights a competition for advanced arms in Asia and that "the China-Taiwan nexus probably constitutes the most vibrant arms market in the world today."

- 100 Klimov/Sarkisov RD33 jet engines from Russia
- Avionics for F-8II fighters from the U.S. (delivery in December 1992 for pre-1989 sale)
- Artillery munitions production equipment from the U.S. (delivery in December 1992 for pre-1989 sale)
- 4 AN/TPQ-37 artillery locating radars from the U.S. (final delivery in December 1992 for pre-1989 sale)
- 4 Mark 46 MOD 2 anti-submarine torpedoes from the U.S. (delivery in December 1992 for pre-1989 sale).

In addition, China is reportedly discussing other weapons purchases:

- MiG-31 fighters from Russia (may include production technology)
- Tu-22M bomber (4,000km range, air-refueling capability) from Russia
- Il-76 airborne warning and control system aircraft from Russia
- 2-4 Kilo-class conventional submarines from Russia
- AEW (airborne early-warning) system possibly from Russia.

Expanded Military Presence In Asia. Recent military construction by the PLA has indicated a continued strategy to expand military influence over the contested waters in southeast Asia. Chinese efforts to expand its military presence in contested areas increase the chances of armed conflict with Asian neighbors. Meanwhile, over the past year, Beijing has initiated a series of large military exercises in the general area of Taiwan, presumably with the intent to curb movement toward separatism by political leaders on Taiwan.[27]

The PLA has reportedly deployed three Romeo-class submarines from the North Sea Fleet to the South Sea Fleet, in order to patrol the disputed South China Sea.[28] (See Map 2 for disputed Spratly Islands; map provided by Office of Geography, Department of State, 1992.) In June 1992, China signed an oil exploration agreement with the American company, Crestone Energy Corp., for an area in the South China Sea claimed also by Vietnam. Such a venture may provide the PLA with a pretext to act militarily in the disputed waters. Crestone's chairman stated that Chinese officials assured the company that it will be protected with China's "full naval might."[29] China also has built an airbase on one of the Paracel Islands (Woody Island) in order to extend its air patrol capability over the Spratlys.[30]

There are also signs that China is seeking to obtain a military presence close to the Indian Ocean, through its close friend and arms recipient, Burma. China is reportedly building a base in Burma on an island in the Bassein River, close to India's Andaman Islands. According to Japanese sources, the PLA would be able to use the facility. In addition, China is constructing a radar station on the Coco Islands, north of the Andamans.[31]

---

[27] *Far Eastern Economic Review*, October 13, 1994.

[28] *Far Eastern Economic Review*, April 8, 1993, p. 9.

[29] Nicholas D. Kristof, "China Signs U.S. Oil Deal for Disputed Waters," the *New York Times*, June 18, 1992, p. A8.

[30] *Far Eastern Economic Review*, August 13, 1992, p. 16.

Ballistic Missiles and Nuclear Weapons. China is continuing to modernize its nuclear forces, called the Second Artillery. China's nuclear testing in the last two years shows a determined program to upgrade its nuclear weapons despite the end of the cold war. In 1992, China conducted two nuclear tests, including its largest underground nuclear blast on May 21, 1992. The active pace has continued, with the latest Chinese nuclear test, on October 7, 1994. These have been conducted in spite of a global moratorium on nuclear testing by the United States, Russia, France, and the United Kingdom in an effort to achieve a comprehensive nuclear test ban. President Clinton has repeatedly expressed disappointment at Chinese testing. The United States welcomes China's recent declaration that it will abide by a comprehensive nuclear test ban agreement proposed for 1996.[32]

China is believed to be developing new ballistic missile systems with improved accuracy and guidance, greater range, and multiple warheads. A new supersonic bomber, Hong-7, is under development. A more advanced submarine launched ballistic missile, Julang-2, is also being developed.[33] Some believe that China is developing new tactical as well as strategic nuclear warheads. The Chinese have developed the M-9 (600 km) and M-11 (300 km) short-range ballistic missiles that can have nuclear or conventional warheads. Chinese nuclear doctrine on the use of tactical weapons has not been clear.[34]

Intentions

Regional Dominance/Global Influence.

Many believe that China's goals in building up its military include gaining regional dominance, in the sense that China would have influence or control over developments in Asia. China's views on regional developments, however, may conflict with the interests of the United States and its allies, such as Japan. Adhering to a balance of power perspective on world politics, many Chinese leaders see building China's military capability as necessary to check Russian, Japanese, and U.S. influence in Asia. In addition, the lessons of the Persian Gulf War, as perceived by them, are that modern warfare requires high-tech weapons, and a country with great power status must have high-tech weapons. According to this view, China can be expected to use military power (including upgraded nuclear capability) to back its political claims to world power status and to help to check U.S. global influence when it conflicts with Chinese aspirations.[35]

---

[31] *The Economist*, October 22, 1992, p. 1.

[32] The *New York Times*, September 18, 1993. See also CRS Report 94-422S, *Chinese Nuclear Weapons and Arms Control Policies*, March 25, 1994.

[33] See, for example, *Bulletin of the Atomic Scientists*, November 1993.

[34] Richard Fieldhouse, "China's Mixed Signals on Nuclear Weapons," *Bulletin of the Atomic Scientists*, May 1991.

Actions on Sovereignty Disputes and Offshore Resources.

China has issued warnings on the possible use of force to settle several disputes, including the South China Sea, Taiwan, and Hong Kong. Chinese claims to much of the South China Sea extend close to Southeast Asian countries and include the contested Spratly and Paracel Islands.[36] Taiwan, Vietnam, the Philippines, Malaysia, and Brunei also claim all or part of the Spratlys, while Vietnam and Taiwan also claim the Paracels.[37] In addition to disputes in the South China Sea, Japan (a U.S. ally), Taiwan, and China have claimed the Diaoyu (in Chinese) or Senkaku (in Japanese) Islands. Tensions increased in February 1992, when China issued a Territorial Waters Law formally declaring Chinese sovereignty over disputed areas, including the South China Sea and Diaoyu/Senkaku Islands. The law also specifically authorized the PLA to enforce the claims by force.

While the PRC has not ruled the island of Taiwan, Beijing has claimed that Taiwan is a part of China and should be "reunified" either peacefully or through the use of force if necessary. On August 31, 1993, Beijing issued for the first time a "White Paper on Taiwan," reiterating what Beijing sees as its right to reserve a military option for resolving the dispute. It followed up with a series of large military exercises in the Taiwan Strait area during 1994.[38]

Regarding Hong Kong, China, on September 23, 1993, issued Deng Xiaoping's statement to then-British Prime Minister Margaret Thatcher in 1982. Chinese publications quoted Deng's warning that China would "reconsider the timing and manner of the takeover," if there were serious "disturbances" in Hong Kong during the transition to change in sovereignty.[39]

PLA modernization is also intended to secure Chinese economic interests in offshore resources. The South China Sea is believed to hold oil and gas reserves, although substantial exploration still needs to be completed. Vice

---

[35] See among others, sources noted in footnote 10.

[36] See, for example, *East Asia: Disputed Islands and Offshore Claims -- Issues for U.S. Policy*, CRS Report 92-614S, by Robert Sutter, July 28, 1992.

[37] Then-Secretary of State James Baker reiterated the U.S. policy on this dispute at a meeting with ASEAN (Association of South East Asian Nations) ministers in July 1992. Washington does not side with any claimant, but wants a peaceful resolution of the dispute and freedom of navigation in the South China Sea. See CRS Report 92-614S, *op. cit.*

[38] Xinhua News Agency, August 31, 1993, *Far Eastern Economic Review*, October 13, 1994.

[39] Xinhua News Agency, September 23, 1993.

Admiral Zhang Xusan of the PLA Navy said "it is high time for China to readjust its maritime strategy and make more efforts to recover the oil and gas resources in the South China Sea."[40]

Willingness to Use Force.

Since its founding in October 1949, the PRC has opted to use armed force in a number of disputes, rather than pursue a peaceful, negotiated settlement. Examples include:

- Takeover of Tibet (October 1950-October 1951): After the civil war against Republic of China forces on the Chinese mainland, the PLA expanded its control to Tibetan areas and has since maintained control;[41]

- Korean War (1950-53): The PLA entered the Korean War in October 1950 to support North Korean troops against the U.N. forces led by the United States;[42]

- Taiwan Strait Crisis (1954-55): The PLA in September 1954 launched heavy artillery attacks on the offshore island of Quemoy and in November, PLA planes bombed and subsequently occupied the Tachen Islands. The United States signed the Mutual Defense Treaty with the Nationalist government on Taiwan on December 2, 1954;[43]

- Second Taiwan Strait Crisis (1958): The PLA engaged in artillery attacks on two offshore islands (Quemoy and Matsu) held by the Nationalists and threatened American naval ships;[44]

- Sino-Indian Border War (1962): In October 1962, the PLA launched attacks on two disputed areas along the Sino-Indian eastern and western borders. In the west, the PLA expanded its line of control to include the Aksai Chin, considered strategically important to China because Chinese workers had built a road through the area to connect western Tibet with Xinjiang;[45]

---

[40] *China Daily*, April 6, 1992, p. 4

[41] See among others, *A History of Modern Tibet, 1913-1951*, by Melvyn C. Goldstein, University of California Press, 1989.

[42] See Allen S. Whiting, *China Crosses the Yalu*, Stanford University Press, 1960), and Harlan W. Jencks, *From Muskets to Missiles: Politics and Professionalism in the Chinese Army, 1945-1981*, Westview Press, 1982.

[43] See among others, Roderick MacFarquhar, *Sino-American Relations, 1949-71*, Praeger Publishers, 1972.

[44] *Ibid.*

- Vietnam War (1964-70): When the U.S. escalated military action in 1964, the PLA, among other support, deployed warplanes and large numbers of troops in North Vietnam, conducted joint air exercises with the North Vietnamese, launched antiaircraft artillery on American planes, provided direct military aid, and protected North Vietnamese troops and warplanes along the Sino-Vietnamese border;[46]

- Sino-Soviet Border Clash (1969): The Soviet Union and China clashed in the disputed Amur-Ussuri border area in March 1969, after PLA troops intruded to stake their claim on Damansky/Chen Pao Island;[47]

- Paracel Islands (1974): In 1974, the PLA took control of several disputed Paracel Islands in the South China Sea by forcefully ousting South Vietnamese forces which had occupied the islands for many years. The PLA takeover occurred before North Vietnam could occupy the Paracels after the country's unification in 1975;[48]

- Sino-Vietnam Border War (1979): In February 1979, after failing to deter Vietnam's invasion of Cambodia, China dispatched the PLA in a limited, one-month invasion of Vietnam, "to teach Vietnam a lesson";[49]

- Sino-Indian Border Skirmishes (1986-87): In 1986, India reported that PLA troops intruded into Indian territory beyond the line of control established at the end of the 1962 war. In talks with U.S. Defense Secretary Weinberger in October 1986, Deng Xiaoping threatened to "teach India a lesson" if India did not stop "nibbling" at Chinese territory;[50]

---

[45] Gerard H. Corr, *The Chinese Red Army: Campaigns and Politics since 1949*, Schocken Books, 1974; and Neville Maxwell, *India's China War*, Jonathan Cape Limited, 1970.

[46] Robert S. Ross, *The Indochina Tangle: China's Vietnam Policy 1975-1979*, Columbia University Press, 1980; and Harlan W. Jencks (1982).

[47] See Corr (1974).

[48] See Ross (1988); and Robert G. Sutter, *East Asia: Disputed Islands and Offshore Claims--Issues for U.S. Policy*, CRS Report, July 28, 1992.

[49] Ross (1988).

[50] David Bonavia, "Troubled Frontiers," *Far Eastern Economic Review*, September 4, 1986, p. 14-15; Nayan Chanda, "Heading for a Conflict," *Far Eastern Economic Review*, June 4, 1987, p. 42-43; and Robert G. Sutter and Richard P. Cronin, *China-India Border Friction: Background Information and Possible Implications*, CRS Report, June 19, 1987.

- **Spratly Islands (1988):** In March 1988, the PLA forcefully ousted Vietnamese forces and took control of six islands in the Spratlys;[61]

FACTORS ARGUING AGAINST VIEWING CHINA AS A CURRENT OR EMERGING THREAT

Capabilities

Despite the recent build up, many analysts tend to depict the PLA as a demonstrably backward force. It is depicted as trying not to fall further behind the more advanced technological abilities of China's neighbors, while facing a political situation at home that still emphasizes economic modernization over defense spending.[62]

The roots of China's defense backwardness go deep into the Maoist period and the prolonged confrontation with the Soviet Union. At that time (1960s-1980s), China's defense depended on a military strategy heavily reliant on ground forces that expected to engage the invading enemy on Chinese territory. China gave special attention to the development of a reliable nuclear counterattack capability, mainly through mobile nuclear tipped missiles, to deter the Soviets from using nuclear weapons against China. Apart from such missiles, the PLA's ability to project power beyond its borders remained limited. The Navy and Air Force were weak in power projection, remaining focused respectively on coastal defense and air interdiction of intruding enemy forces.[63]

Weaknesses in power projection were graphically illustrated during China's military incursion into northern parts of Vietnam in early 1979.[64] The incursion was designed to "punish" Hanoi for invading Cambodia the previous December and to divert Vietnamese military attention from possible expansion against Thailand or elsewhere in Southeast Asia. The Chinese succeeded in diverting few Vietnamese main force units. The PLA had to contend with the well seasoned Vietnamese militia forces in the region.

---

[61] Jerry Cushing, "Beached Again on Shoals," *Far Eastern Economic Review*, March 17, 1988, p. 23-25; *Far Eastern Economic Review*, March 24, 1988, p. 10, and August 13, 1992, p. 15.

[62] This view does not get nearly the media play of that which sees China as an security threat. However, it was featured prominently in interviews conducted in 1993 and was voiced by several experts at a Japan Institute of International Affairs Conference on China, July 1993 and at an Institute for International Security Studies conference on China's military, Hong Kong, June 1993.

[63] For useful overviews of Chinese military developments during this period, see the military chapters in the U.S. Congress. Joint Economic Committee, "China Under the Four Modernization," 1982; "China's Economy Looks Toward the Year 2000," 1986; and "China's Economic Dilemmas in the 1990s," 1991.

[64] See sources cited in footnote 45.

Beijing's biggest obstacle turned out to be the PLA's cumbersome force structure, obsolete strategy and outdated weapons. Although enjoying a large numerical superiority over the smaller Vietnamese air force, the Chinese chose not to employ air power to assist the advance. Western analysts suspected the reason was Beijing's inexperience in combined arms operations, along with a fear of losing many expensive aircraft to Vietnamese ground fire and fighter aircraft. The resulting Chinese assault took on features of the plodding artillery-infantry advances seen along the Eastern and Western fronts during World War I. The Vietnamese militia acquitted themselves well, holding and then slowly withdrawing from local strong points and imposing heavy casualties on the Chinese invaders. When PLA forces withdrew after one month of operations, their casualties were in the range of 30,000.

Chinese planners endeavored to learn from the Vietnamese experience. A major realignment of China's military strategy begun in the mid-1980s shifted the PLA away from past emphasis on a major war with the USSR and placed more emphasis on mobile warfare, combined arms operations and more modern military equipment. But defense budgets and defense spending were on the decline throughout the decade. The U.S. Arms Control and Disarmament Agency estimated that actual Chinese defense spending in 1989 was 25 percent less than actual Chinese defense spending in 1979.[55]

Chinese procurement specialists tried to put their limited budgets to good use. Extensive lists were drawn up by PLA leaders anxious to acquire more advanced weapons systems useful for the type of smaller scale warfare and power projection needs anticipated by Chinese leaders. Nonetheless few deals were actually made, and those that were made often involved the upgrading of existing Chinese platforms (planes, ships, tanks etc.) with more advanced avionics, fire control systems, guns etc.

Several of these arrangements did not work as planned. For example, the sale of British "Spey" engines for use in the Chinese derivative of the MIG 21 fighter--the mainstay of China's air defense -- eventually saw Chinese officials decide to abandon plans to incorporate the foreign power plant. This costly failure appeared to demonstrate that Beijing still has not worked out the defects in the Chinese MIG 21 engine which have made Chinese reluctant to use the planes extensively, in part for fear of rapid engine burnout. Meanwhile, the Chinese plan to upgrade the F-8 jet interceptor with U.S. technology was thrown over by U.S. sanctions on such military sales after the 1989 Tiananmen crackdown.

What upgrades and purchases have taken place or are planned often show little sign of substantially improving Chinese military capabilities, especially in sensitive areas of power projection. Notable continuing Chinese limitations include:[56]

---

[55] U.S. Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, 1990, Table I.

- A large (100) submarine force with very dated boats (as many as one half may no longer be operational); difficulty in communications adds to reasons for keeping boats close to shore. China's record of fatal sub accidents is among the worst in the world, especially given the limited amount of time such boats actually spend at sea;
- A large (5,000) jet fighter- and bomber-force based--at best--on early 1960s Soviet derivatives that are often mechanically unreliable and therefore are restricted in use;
- A decades-long Chinese search for a reliable air refueling system that would extend the very limited range of Chinese aircraft;
- Infrequency of live-fire exercises and other activities that prepare the armed forces for actual combat;
- Continued weak command and control systems--this argues for caution in deploying forces far from headquarters;
- Relatively few transport helicopters to assist force mobility; continued reliance of World War II type-land- and sea-based movement for deployment of troops.

The lessons of the Persian Gulf war 1991-1992 are seen to underline China's relatively weak capabilities in critical areas. The ability of well trained Western forces armed with high-technology weaponry to conduct effective combined arms operations against Iraqi forces showed Beijing how far behind it actually was in dealing with modern warfare. Beijing leaders are well aware that Chinese forces continue to have much more in common with those of Saddam Hussein than with the West. It is clear as well that the forces deployed around China's eastern periphery (especially those of Japan, South Korea, and Taiwan) and to a lesser degree some forces in Southeast Asia (notably Singapore) have the kind of fire power, mobility, training, and experience that the allies used so successfully against Iraq.

Although Chinese defense budgets began to go up to help redress some of the problems in capabilities, Chinese defense spending has been negatively affected by the rapid drop off in Chinese arms sales abroad in recent years. The decline in sales stemmed from the loss of the Iran-Iraq market following the termination of that war, and the desire of most foreign buyers to obtain equipment more advanced than that sold by China.[57]

---

[56] Details of China's Force Structure are listed in *The Military Balance, 1993-1994*, IISS, London, 1993.

[57] See, *Conventional Arms Transfers to the Third World*, 1985-1992, Richard Grimmett, CRS Report 93-656F, July 19, 1993, 84 p.

Chinese military capabilities also have suffered in a relative sense because many of China's neighbors--especially to the East and South--continue to outpace China in terms of defense technology, modernization and relative defense spending:[58]

- Throughout the 1980s, Japan, South Korea and Taiwan all experienced continuous increases in military spending, at a rate of 4-5 percent a year. China's military spending steadily declined in the same period.

- In the 1980s, most East Asian countries began to incorporate sophisticated weapons more capable of power projection into their armed forces. Japan and South Korea moved this way first, in the late 1970s and early 1980s, followed by Taiwan, Singapore, Malaysia and Indonesia. In this respect, China's recent upgrading can be seen as that of a laggard trying to catch up. A few examples include:

- Japan's AEGIS destroyers, new submarines and air refueling tankers--all designed to help defend sea lines of communication to 1,000 miles around Japan;

- Taiwan's acquisitions of F-16 and Mirage fighters, French and American advanced frigates and new U.S. air defense systems;

- South Korea's acquisition of F-16 fighters, new submarines, frigates and helicopters

All ASEAN states, with the possible exception of the Philippines, have been upgrading naval and air force capabilities related to their switch from past focus on home/coastal defense to current emphasis on providing a greater range of striking power and force projection. All, except Malaysia and Brunei, have purchased F-16 aircraft and moved to phase out current F-5 fighters. Singapore has acquired 8 F-16s, and is considering buying more; Indonesia is getting 12 and may increase the number; Thailand is getting 18 F-16s; Malaysia purchased a few F-18s along with some MIG 29s from Russia. In naval capabilities, Indonesia has purchased 6 Van Speijk-class frigates, and plans to buy as many as 12 FG-90 class frigates starting from the mid-1990s. Malaysia is buying two sophisticated frigates from Britain, while Thailand has commissioned two Chinese-built frigates. Singapore has fitted six of its 24 fast-attack craft with Harpoon surface-to-surface missiles. Brunei is considering buying three missile-carrying patrol boats from Britain.

---

[58] See among others, Michael Klare, "The Next Great Arms Race," *Foreign Affairs*, summer 1993; Hu Weixing, "Economic Growth, Defense Industries, and Armament Dynamic: Interpreting the Military Building in East Asia, conference paper, May 1993; Wang Qi, "The Chinese Perspective on Multilateral Security Arrangements in the Asia-Pacific Region," conference paper, May 1993; Michael Gallagher, "China's Illusory Threat to the South China Sea", *International Security*, summer 1994.

Intentions

Although aspirations to greater power and military superiority may dominate some of the private thoughts and public pronouncements of certain Chinese leaders, the fact remains that Chinese leaders continue to face a number of considerations that offset or moderate any expansionist intent. Heading the list is the logic which has dominated Chinese international security and foreign policies in the post-Mao period:[59]

- Post-Mao Chinese communist leaders need to foster a better economic life for the people of China in order to legitimate and justify their continued monopoly of power. These leaders cannot rely as Mao did on his enormous personal prestige as a successful revolutionary, or on the attractiveness of Communist ideology: they have little of Mao's prestige, and the attractiveness of Communist ideology is largely a thing of the past.

- China depends critically on foreign trade, and related foreign investment and assistance, for its economic development.

- China depends particularly heavily on its neighbors for aid, investment, and trade benefits, and on the United States to absorb its exports.

- Therefore, to insure their survival politically, post-Mao leaders emphasize their concern with maintaining a "peaceful" international environment which assures continued trade, investment, and assistance flows so important to Chinese economic well being.

The bottom line as far as China's international security and foreign policies are concerned is that Chinese leaders are not inclined to confront those countries so important to China's economic modernization. A case in point relates to Chinese policy toward the United States since the Tiananmen incident. Despite what Beijing views as repeated American affronts and insults to the Chinese Communist regime, the Chinese government sees its interests best served by continuing to seek common ground with the U.S. on economic and security issues. The same reasoning holds true for China's relations with Japan and other Asian neighbors, although they, for their own reasons, have been less likely than the U.S. to take action directly antagonistic to the PRC.

An apparent example of such PRC restraint was reported by the *Far Eastern Economic Review* recently about an incident in April 1994 in the South China Sea. A Chinese seismic research vessel chartered by the U.S. Crestone Energy Corp. was challenged while working in disputed waters, was surrounded by five Vietnamese gunboats, and was escorted to international waters. There was no response noted from China to what could have been seen as an infringement on sensitive Chinese territorial claims.[60]

---

[59] For background, see among others, *China in World Affairs--Background, Prospects and Implications for the U.S.*, by Robert Sutter, CRS Report 92-747S, October 1, 1992, 28 p.

The Chinese also need to restrain any expansionist intent because their neighbors, backed by the United States, have become particularly vigilant in monitoring Chinese military moves. Some have called for countermeasures. Over the past year, Chinese leaders have reacted defensively to media and official charges in the region and the West about China's emerging military threat. They have gone to considerable lengths in high level meetings and visits to the East Asian region to reassure those concerned with China's intentions, especially regarding the disputed islands in the South China Sea. Chinese officials express worry publicly and privately that critics in the region and the West will use recent interest in Asian regional security arrangements to set up an international alignment directed at the Chinese threat. Clearly seeing such a trend as adverse to broader Chinese interests, Beijing this year has avoided repetition of some of the assertive actions it took in the South China Sea in 1992.[61]

ASSESSMENT

Factors arguing in favor of and against viewing China as a military threat show that the main danger to U.S. interests over the next few years focuses on areas in the Asian-Pacific region around China's periphery where China and other countries important to the U.S. contest territorial claims. (China's current military capabilities generally show little sign of China's posing a direct threat to the United States for a decade or longer.)

Perceived Chinese expansionist designs to control contested areas which China claims around its periphery are currently held in check by limitations in PLA capabilities; insufficient justification in terms of important Chinese security, economic or political interests; and the likely negative foreign reaction to an assertive Chinese action.

Each of these factors is subject to change. An important case in point for the United States involves Taiwan, an area of longstanding importance for U.S. economic, political and security interests. For many years, PRC leaders have seen little to be gained in resorting to force in order to assert their claim to the island. They have repeatedly warned, however, that Beijing would not hesitate to use force in response to changed conditions, such as a challenge to China's claimed sovereignty posed by a formal Taiwan declaration of independence. In the past, the ruling Nationalist Party in Taiwan strongly adhered to a "one-China" policy and ruled in an authoritarian fashion against advocates of Taiwan independence. Political democratization in Taiwan in recent years has seen a weakening of Nationalist Party rule and the rise of a growing political opposition formally dedicated to seeking Taiwan independence. Circumstances could arise in the not-too-distant future where a government in Taiwan might declare independence--a formal challenge to Beijing's claim of sovereignty that in turn might greatly increase the likelihood of forceful military action (e.g. blockade) against the island.[62]

---

[60] *Far Eastern Economic Review*, October 13, 1994.

[61] On Chinese defensiveness, see among others, *Defense News*, June 28-July 4, 1993, p. 4, 37.

Also of current concern to observers in Asia and the West is the potential for further Chinese expansion in disputed areas of the South China Sea. Most notably, China, Taiwan and Vietnam claim the entire collection of islets and reefs known as the Spratly Islands, while Malaysia and the Philippines have claims to parts of the territory (see Map 2). All the countries maintain armed forces on some of the islets. At present, the PLA has sufficient military capabilities to expand its territorial holdings, especially in areas currently held or claimed by Vietnam. Beijing continues methodically to increase capabilities (e.g., building airstrips) that would allow China to deploy forces sufficient to establish air and sea control around disputed islets or reefs. A strategic rationale for Chinese actions is provided by the fact that the region is located along sea lines of communications of importance to China. It may contain important oil and gas reserves useful for China's economic modernization, while a successful military operation to assert Chinese nationalistic claims would presumably redound to the domestic political benefit of leaders in Beijing.[63]

The main deterrent to Chinese expansion at present appears to be Chinese leaders' concern with foreign reaction. Assertive Chinese claims, aggressive military patrolling, and provocative oil exploration activities in early 1992 generated substantial negative foreign reaction. Over the past two years, Chinese leaders have taken pains to reassure important Asian leaders and those western leaders interested in the area regarding China's alleged benign intentions. Presumably, this reflected a Chinese calculus to avoid stirring up a level of alarm that could lead to economic sanctions, political-military alignments or other actions designed to contain and check Chinese expansion.

China has been concerned to avoid direct U.S. intervention in this dispute. U.S. interests are less directly involved in this area than in Taiwan, but U.S. leaders in the Bush Administration in 1992 went out of their way to strongly emphasize American interests in the peaceful resolution of these problems. The implication was left that the U.S. might take unspecified actions against those (mainly China) seen to be taking assertive actions threatening peace in the region.

---

[62] The current and prospective military balance in the Taiwan Strait argues against direct PRC assault on the island--Taiwan's defenses are too strong. A blockade, relying on Beijing's superiority in submarines, is seen as more likely. (cont'd) See among others Parris Chang and Martin Lasater, *If China Crosses the Taiwan Strait*, University Press of America, 1993.

[63] See review of this controversy in *East Asia: Disputed Islands and Offshore Claims--Issues for U.S. Policy*, Robert Sutter, CRS Report 92-614S, July 28, 1992, 15 p.

If China succeeds in neutralizing or distracting foreign attention, Beijing may see advantage in moving aggressively in the region once again. China has already won over Malaysia's prime minister to a publicly benign view of China's intentions and has also reassured Philippine leaders to some degree.[64] Beijing is also well aware that some observers in Asia and the West would see their emerging economic and other relations with China as of more importance than their interests in the Spratly Islands. Advocates of an assertive Chinese approach thus might see foreign reaction as welcoming the "stabilizing" role of China in this disputed region, after an initial period of some criticism of PRC military actions.

In addition to the cases of Taiwan and the Spratly Islands, circumstances could arise in other areas around China's periphery that could prompt assertive Chinese behavior contrary to U.S. interests. Thus, for example, the U.S. has a general interest in the peace and stability of the newly formed Central Asian republics. Chinese leaders from time to time suspect that these countries harbor elements or promote policies supportive of minority dissidents resisting Chinese rule in western China. Beijing may choose to use force across international borders in order to defend against this perceived danger. A much more important U.S. interest involves the defense alliance with Japan. China and Japan occasionally spar over disputed islands located north of Taiwan. If Beijing were to try to assert its claim by force, Japan might call upon its treaty ally, the United States, to intervene.

INDICATORS OF CHINESE MILITARY THREAT

Several variables or indicators govern the likelihood of more or less assertive Chinese behavior threatening to U.S. interests in peace and stability in the Asian-Pacific region.

Indicators of Increased Prospects of Threatening Chinese Behavior.

o Emergence of a power vacuum in the Asia-Pacific region. This could provide a greater incentive for Chinese military expansion and reduce negative consequences that might flow from such expansion.

o Sharp increase in national assertiveness by PRC leaders. This could result from a Chinese leadership power struggle. For example, an ascendant faction might endeavor to use strident nationalistic rhetoric and military actions in order to rally domestic political support.

o Broad, successful technological modernization of the PLA. A marked increase in PLA capabilities to project power, especially air and naval power, relative to other states in the region would dramatically increase the range of actions Chinese leaders might take in order to assert their nationalistic, territorial claims.

---

[64] *Far Eastern Economic Review*, August 26, 1993.

o Less Chinese dependence on/concern over Asian-Pacific, Western countries. This could come about due to economic success in China. Such success could cause Asian-Pacific and Western countries to judge that they needed to cater to China despite Beijing's military threats. Alternatively, if Asian-Pacific and Western countries were to decide to isolate China (e.g., U.S. withdraw MFN trade privileges), they could force Beijing into a more autarchic development strategy that reduces China's dependence on economic ties with the outside world and China's concern with international reaction to Chinese military expansion.

o Actions by groups or leaders around China's periphery seen as challenging fundamental interests of the Chinese state. This could include a Taiwan declaration of independence; substantial Indian support--military equipment, training--for armed Tibetan resistance to Chinese rule; or other possibilities.

Indicators of Reduced Prospects of Threatening Chinese Behavior.

o Continued Chinese leadership preoccupation with domestic economic, political and social problems. This could give little opportunity to divert resources to controversial expansionist actions.

o Growing Chinese economic interdependence with Asian-Pacific, Western countries. Dependent on economic modernization for political success, Chinese leaders presumably could not afford to alienate these important sources of economic support.

o Continued PLA backwardness relative to likely adversaries. This could reinforce caution of PRC leaders, avoiding use of forces where they might be defeated or cause such loses as to embarrass and undermine support for the regime.

o Strengthened regional efforts to deal with China. On the one hand, this could involve military buildups by countries in the region along with the U.S., and the establishment of multilateral arrangements to put pressure on the Chinese to avoid provocative or disruptive actions. On the other hand, regional arrangements could be designed to include and "engage" the Chinese in a series of mutually supporting discussions and activities. These in turn presumably would persuade the PRC leaders that they had more to gain from working constructively with others concerned with peace and security in the region than by adopting threatening measures upsetting to peace and stability.

U.S. POLICY OPTIONS

U.S. policymakers have a range of unilateral, bilateral and multilateral options for dealing with China's military power. They include positive and negative incentives designed to influence Chinese behavior in ways that enhance regional stability and curb China's potential expansion.

Unilateral. The U.S. military presence helps to maintain stability in the region and avoids the creation of a power vacuum that Beijing might be tempted to fill. There is disagreement in the U.S. over the size and scope of this presence, especially given competing U.S. spending priorities and Asian allies ability to provide more for their own defense. The Pentagon's September 1993 Bottom Up Review called for retaining almost 100,000 troops in Asia, based mainly in South Korea and Japan. The U.S. military presence also solidifies U.S. relations with key Asian states (e.g., Japan, Korea) and encourages them to continue to side with the U.S. in the event of serious differences with China over regional security issues.

U.S. arms sales to Asian countries also reassure allies and friends of U.S. resolve and reenforce stability. On the other hand, they are seen as fueling arms races in sensitive areas. In particular, some believe that the U.S. sales of 150 F-16 fighters to Taiwan may provoke a PRC counter effort that will exacerbate tensions and add to regional instability. Others, of course, see the sales as needed to reassure friends in Taiwan faced with rising PRC air power.

Bilateral. Positive U.S. incentives include in the recent efforts of the Clinton Administration to broaden and heighten U.S. official dialogue with Chinese leaders, including those of the PLA. Through such dialogues, seen notable in Defense secretary William Perry's October 1994 visit to China, both sides are presumably reassured regarding the military-security actions and intentions of the other, and are less inclined to take drastic action in response. The overall effect is thought to be calming and stabilizing for the Asian-Pacific region.

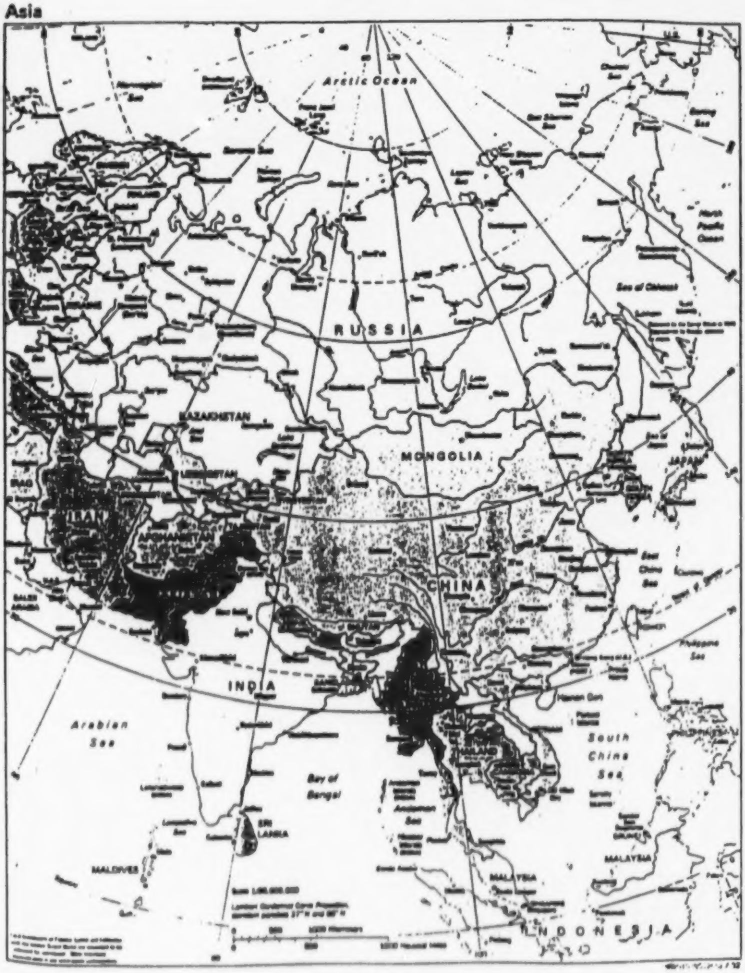
U.S. engagement with China also involves interaction in political, economic and other areas that are assumed to make Chinese policymakers more supportive of the international status quo and less prone to disruptive action in Asian and world affairs.

Negative U.S. incentives stem logically from the positive ones. The U.S. has the option to cut back ties important to PRC leaders in response to perceived provocative or threatening Chinese action. Areas most sensitive to China are economic ties, especially access to the U.S. market determined annually by the President with the concurrence of Congress regarding whether or not to grant Most-Favored-Nation trade treatment to Chinese imports to the U.S. China is also keenly interested in U.S. investment and high technology; U.S. policymakers have levers to regulate the flow of such benefits depending in part on Chinese policy and actions in the Asian-Pacific region.

Multilateral; On the positive side, the United States could work more actively with China and other regional powers to reach security arrangements that reassured all parties and enhanced stability. Because of its unique role as the region's only superpower and its perceived importance for all major Asian powers (e.g., Japan, China, Russia), the United States can play a catalyst role more effectively than others. Such multilateral engagement with China would presumably have the objective of demonstrating to PRC leaders that their concerns about the intentions of others have been exaggerated and that China has more to gain from a continued cooperative approach toward the region. Forums that presumably could be used in this endeavor include the annual Association of Southeast Asian Nations' (ASEAN) Post-Ministerial dialogue involving most powers in the region. Some suggest the economic forum, Asian-Pacific Economic Cooperation (APEC), which includes more countries, might evolve into a forum useful for regional security questions.

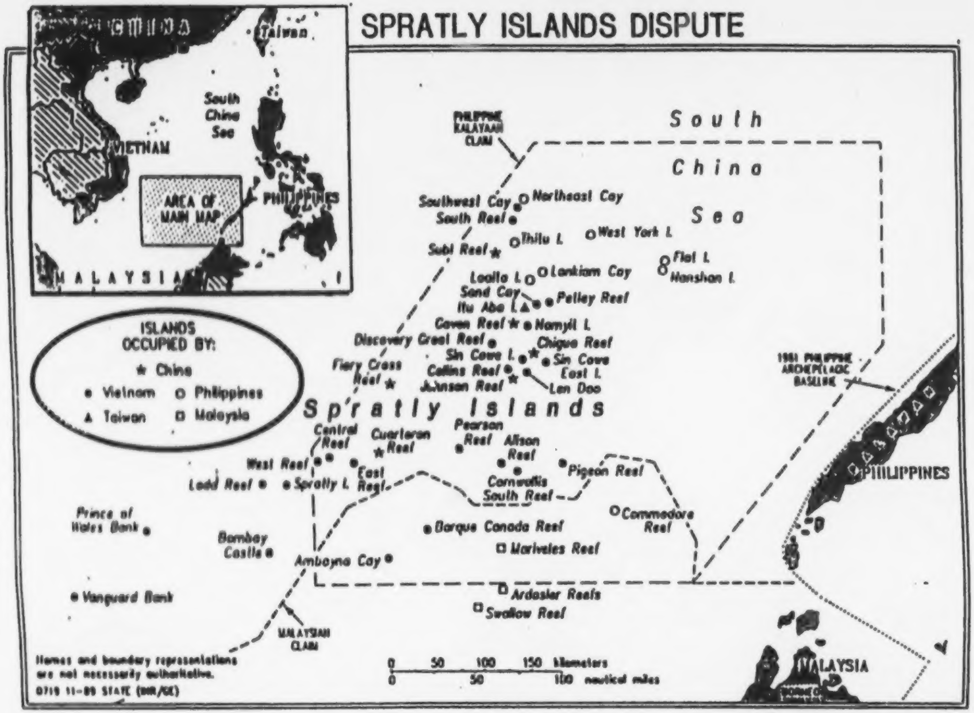
The United States also has the option to work with other countries to restrain or check suspected Chinese expansion. The United States has considerable influence over Russia, Israel, and European countries and presumably could encourage them to curb sales of sensitive equipment to China. Multilateral export controls could be used to curb sensitive sales to China. U.S. allies and longstanding friends along the periphery of Asia also could be expected to work closely with the United States in the event that China challenged regional stability with expansionist military activity in the South China Sea or elsewhere. In particular, China remains heavily dependent on aid from Japan and from international financial institutions led by Japan and the U.S. Adroit use of this aid could provide the allies with powerful leverage in dissuading Chinese leaders from military assertiveness.

MAP 1


Asia
Arctic Ocean
RUSSIA
KAZAKHSTAN
MONGOLIA
CHINA
JAPAN
IRAN
AFGHANISTAN
INDIA
Arabian Sea
Bay of Bengal
Andaman Sea
South China Sea
Sea of Okhotsk
Philippine Sea
Bering Sea
North Pacific Ocean
East China Sea
SRI LANKA
MALDIVES
MALAYSIA
INDONESIA
BRUNEI
IRAQ
SAUDI ARABIA
U.S.

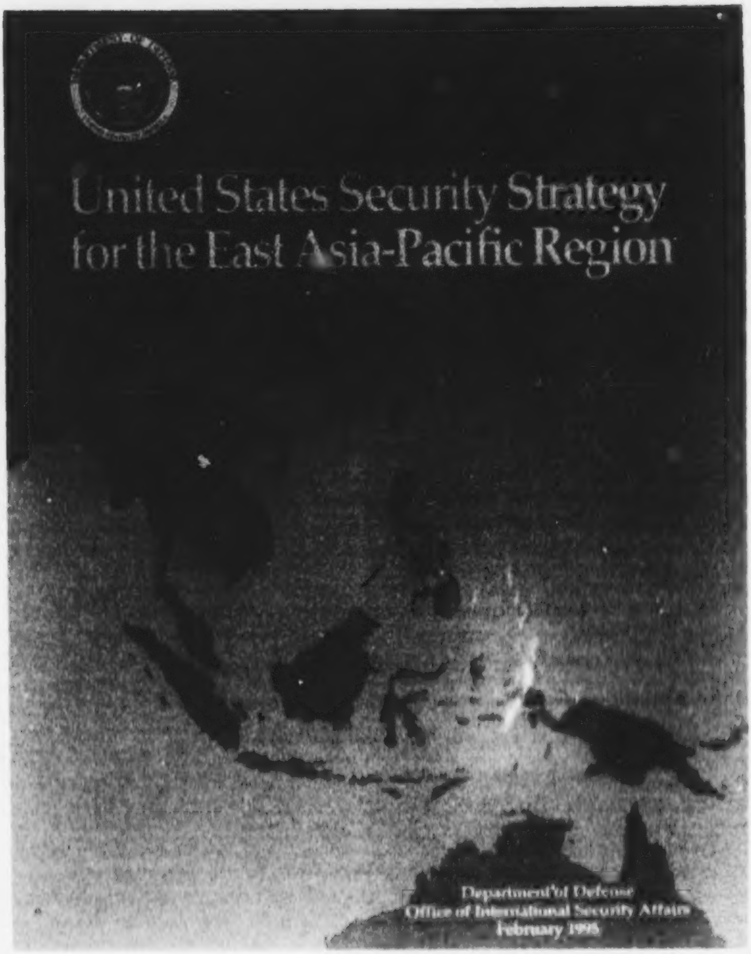
BEST COPY AVAILABLE

SPRATLY ISLANDS DISPUTE


CHINA
Taiwan
South China Sea
VIETNAM
AREA OF MAIN MAP
PHILIPPINES
MALAYSIA
ISLANDS OCCUPIED BY:
★ China
● Vietnam
○ Philippines
▲ Taiwan
□ Malaysia
PHILIPPINE KALAYAAN CLAIM
South China Sea
Southwest Cay
Northeast Cay
South Reef
Thitu I.
West York I.
Subi Reef
Flat I.
Nanshan I.
Loaita I.
Lankiam Cay
Sand Cay
Itu Aba I.
Petley Reef
Gaven Reef
Namyit I.
Discovery Great Reef
Chigua Reef
Sin Cowe I.
Sin Cowe East I.
Fiery Cross Reef
Collins Reef
Johnson Reef
Len Dao
Spratly Islands
Central Reef
Cuarteron Reef
Pearson Reef
Alison Reef
West Reef
East Reef
Pigeon Reef
Ladd Reef
Spratly I.
Cornwallis South Reef
Commodore Reef
Prince of Wales Bank
Barque Canada Reef
Mariveles Reef
Bombay Castle
Amboyna Cay
Ardasier Reefs
Swallow Reef
Vanguard Bank
MALAYSIAN CLAIM
1961 PHILIPPINE ARCHIPELAGIC BASELINE
PHILIPPINES
MALAYSIA
BORNEO
0 50 100 150 kilometers
0 50 100 nautical miles

Names and boundary representations are not necessarily authoritative.
0719 11-88 STATE (INR/GE)

BEST COPY AVAILABLE



United States Security Strategy for the East Asia-Pacific Region

Department of Defense
Office of International Security Affairs
February 1995

BEST COPY AVAILABLE

THE SECRETARY OF DEFENSE
WASHINGTON, DC 20301

The Cold War is over, but diverse international and intra-national conflicts pose potential threats to United States interests. The challenge for the United States is to work with our allies and friends to promote stability in this context. I have asked the Assistant Secretary of Defense for International Security Affairs to undertake a series of regional security reviews consistent with President Clinton's "Strategy of Engagement and Enlargement," to meet this challenge.

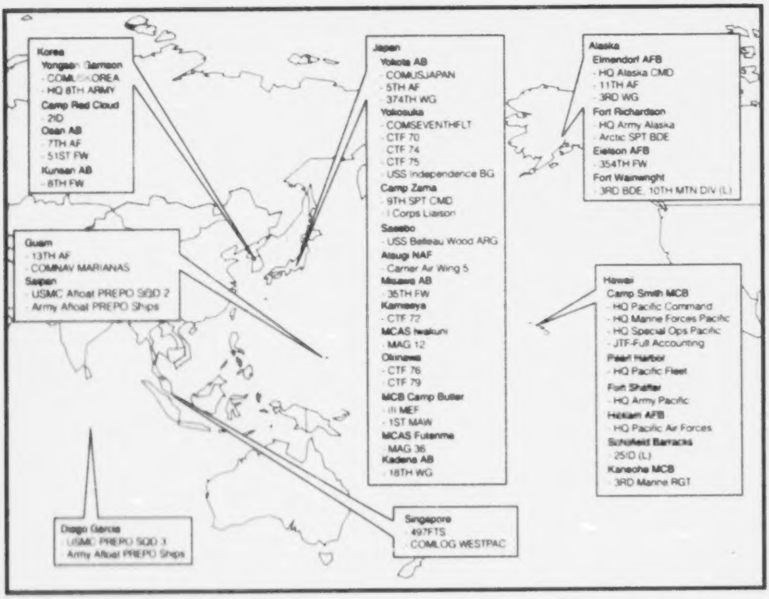
The East Asia Strategy Report is the first of this series. Two previous Department of Defense strategy reports, in 1990 and 1992, envisioned post-Cold War troop reductions continuing in the region through the end of the decade. This year's report, by contrast, reaffirms our commitment to maintain a stable forward presence in the region, at the existing level of about 100,000 troops, for the foreseeable future. This report also highlights strategies and themes common to the other regional reports that will follow. These include:

- strengthening U. S. bilateral alliances while pursuing new opportunities presented by multilateral security dialogues.
- maintaining forward deployment of U. S. forces and access and basing rights for U. S. and allied forces.
- ensuring that security policies have the support of the American people and Congress.
- promoting military-to-military contacts and security assistance.
- halting the proliferation of weapons of mass destruction.
- sharing responsibility for maintaining regional and global security.

I welcome your attention to this report.

William J. Perry
William J. Perry

U.S. Military Presence in the Asia-Pacific Region


Korea
Yongsan Garrison
- COMUSKOREA
- HQ 8TH ARMY
Camp Red Cloud
- 2ID
Osan AB
- 7TH AF
- 51ST FW
Kunsan AB
- 8TH FW
Japan
Yokota AB
- COMUSJAPAN
- 5TH AF
- 374TH WG
Yokosuka
- COMSEVENTHFLT
- CTF 70
- CTF 74
- CTF 75
- USS Independence BG
Camp Zama
- 9TH SPT CMD
- I Corps Liaison
Sasebo
- USS Belleau Wood ARG
Atsugi NAF
- Carrier Air Wing 5
Misawa AB
- 35TH FW
Kamiseya
- CTF 72
MCAS Iwakuni
- MAG 12
Okinawa
- CTF 76
- CTF 79
MCB Camp Butler
- III MEF
- 1ST MAW
MCAS Futenma
- MAG 36
Kadena AB
- 18TH WG
Alaska
Elmendorf AFB
- HQ Alaska CMD
- 11TH AF
- 3RD WG
Fort Richardson
- HQ Army Alaska
- Arctic SPT BDE
Eielson AFB
- 354TH FW
Fort Wainwright
- 3RD BDE, 10TH MTN DIV (L)
Guam
- 13TH AF
- COMNAV MARIANAS
Saipan
- USMC Afloat PREPO SQD 2
- Army Afloat PREPO Ships
Hawaii
Camp Smith MCB
- HQ Pacific Command
- HQ Marine Forces Pacific
- HQ Special Ops Pacific
- JTF-Full Accounting
Pearl Harbor
- HQ Pacific Fleet
Fort Shafter
- HQ Army Pacific
Hickam AFB
- HQ Pacific Air Forces
Schofield Barracks
- 25ID (L)
Kaneohe MCB
- 3RD Marine RGT
Diego Garcia
- USMC PREPO SQD 3
- Army Afloat PREPO Ships
Singapore
- 497FTS
- COMLOG WESTPAC

BEST COPY AVAILABLE

Introduction

Consider East Asia in 1975. The United States was withdrawing from Vietnam, and many observers predicted that widespread instability would follow a broader American withdrawal from the region. Compare these predictions with the stable and prosperous East Asia of 1995. The important reasons that the gloomy predictions proved wrong were American alliances in the region and the continued presence of substantial United States forces. Security is like oxygen: you do not tend to notice it until you begin to lose it. The American security presence has helped provide this "oxygen" for East Asian development.

America's record over the past half century has been one of consistent strength and leadership. Our forward deployed and forward stationed forces in Asia ensured broad regional stability, helped to deter aggression against our allies, and contributed to the tremendous political and economic advances made by nations of the region. Concerns about American withdrawal heard today were voiced twenty years ago as well, in the years following the Vietnam War. For the security and prosperity of today to be maintained for the next twenty years, the United States must remain engaged in Asia, committed to peace in the region, and dedicated to strengthening alliances and friendships.

History, geography, and demography make the United States an integral part of the region. The states of Alaska, California, Oregon, and Washington border on the Pacific Ocean, and Hawaii is surrounded by it. American citizens on three Pacific island territories—Guam, American Samoa, and the Commonwealth of the Northern Marianas—live closer to Asian capitals than to Washington. The increasing number of Americans who trace their ancestry to the Asia-Pacific—numbering over seven million—is yet another indication of America's connection to the nations of the Pacific Rim.

The United States has been the pre-eminent Pacific power since World War II, but our interests in the region date back more than two centuries. When the United States was only a few years old in 1784, a United States trading ship, the *Empress of China*, inaugurated commercial ties with China. One hundred and three years before the Battle of the Coral Sea, United States Navy ships first visited Australia. The United States negotiated Japan's opening to international trade in the 1850s, and mediated the end of the Russo-Japanese war in 1905. From these beginnings through the Second World War and the Cold War that followed, the United States has served as a key stabilizing factor in the region.

America has pledged its commitment to the security of the Asia-Pacific region and has spent its resources and blood fulfilling that pledge. The United States has sent military forces to major wars against aggression in Asia during this century—World War II, the Korean War, and the Vietnam War, as well as a number of smaller conflicts. As these experiences have proven, America's interests in the region must be protected and America's commitments will be honored. They also provide a lesson: Asian tensions have the potential to erupt in conflict, with dire consequences for global security.

The interests at stake during these conflicts continue to compel American attention today.

Asia remains an area of uncertainty, tension, and immense concentrations of military power. Many of the largest armies in the world are in East Asia and the Pacific, including those of nuclear weapons states. Three major powers in Asia—the United States, Russia and China—are permanent members of the United Nations Security Council.

America clearly has a stake in maintaining the alliance structure in Asia as a foundation of regional stability and a means of promoting American influence on key Asian issues. Asian friends and allies are critical to the success of our global strategy in many respects. Their cooperation is necessary to deter potential threats, counter regional aggression, ensure regional peace, monitor attempts at proliferation of weapons of mass destruction, and help protect sea lines of communication both within the region and from the region to the Indian Ocean and Persian Gulf.

Asia today also has new significance. Its role is vital to the pursuit of a more open international economic system. United States trade with the Asia-Pacific region in 1993 totaled over $374 billion and accounted for 2.8 million United States jobs. Given Japan's economic and political weight, it is a natural partner in our efforts to fashion a viable post-Cold War regional and international order. The region has also produced other economic successes—China, Taiwan and Hong Kong, the Republic of Korea, Singapore, Malaysia, Indonesia, and Thailand—each of whom are key United States trade partners and will play an increasingly important role in the global economy.

The long history of close American cultural, economic, and security ties to the Asia-Pacific region reflect fundamental United States national interests that will only grow in coming years. The United States' role as a force for regional stability remains central and has not diminished.

Our forward deployed forces in Asia, based primarily in the Republic of Korea and Japan have ensured broad regional stability, helped to deter aggression against our allies, and contributed to the tremendous political and economic advances made by nations of the region. Today, this commitment continues through a stable forward-deployed force of about 100,000 United States personnel, backed by the full range of capability at the ready for the United States Pacific Command. Post-Cold War reductions in United States forces in the Asia-Pacific have essentially leveled off. Within this stable force level, capabilities will continue to improve as weaponry and equipment are upgraded.

A continuing United States security presence is viewed by almost every country in the region as a stabilizing force. Allies of the United States can base their defense planning on a reliable American security guarantee. But even beyond the nations with whom the United States has a treaty alliance, the stability brought about by United States military presence provides a sound foundation for economic growth in the Asia-Pacific region, benefiting Asians and Americans alike.

In the post-Cold War era, the United States has begun to share responsibility as well as the benefits of global and regional security with its friends and allies. It will continue to do so as these states grow stronger economically and develop global leadership roles. Japan and the Republic of Korea contribute to regional as well as their own security when they provide generous host-nation support for United States forces. Australia increasingly plays a global role in promoting international security. Australia, Singapore, and many other nations contribute to regional security by providing access for United States military forces. Asian countries also contribute significantly to global peace-keeping and development aid.

The United States does not view this wider responsibility-sharing as a substitute for American leadership or for our overseas United States military presence. Active United States engagement is still essential for mobilizing ad hoc international coalitions on security and other issues, as the United States did in the Gulf War and as it has done more recently in bringing together key countries in the region to persuade North Korea to shut down a program that could produce nuclear weapons.

United States interests in the region are mutually-reinforcing: security is necessary for economic growth, security and growth make it more likely that human rights will be honored and democracy will emerge, and democratization makes international conflict less likely because democracies are unlikely to fight one another. President Clinton's repeated trips, summits, and meetings with the region's leaders indicate the Administration's recognition of the growing importance of these intertwined American interests in the Asia-Pacific region.

The United States National Security Strategy published in July 1994 is based on enlarging the community of market democracies while deterring and containing a range of threats to our nation, our allies and our interests. Focusing on new threats and new opportunities, its central goals are: to enhance security by maintaining a strong defense capability and promoting cooperative security measures; to open foreign markets and spur global economic growth; and to promote democracy abroad.

In accordance with the National Security Strategy, this document explains United States defense policy toward furthering these goals in the Asia-Pacific region. It builds upon the Strategy's emphasis on maintaining a strong defense capability to enhance U.S. security and to provide a foundation for regional stability through mutually beneficial security partnerships. As the Strategy states, East Asia is a region of growing importance to American goals: nowhere are the strands of our three-part strategy more intertwined; nowhere is the need for continued engagement more evident. In thinking about the Asia-Pacific region, security comes first, and a committed United States military presence will continue to serve as a bedrock for America's security role in this dynamic area of the world.

The regional security strategy for the Asia-Pacific region emphasizes strengthening the bilateral alliances that have been at the heart of United States strategy for more than forty years. The United States is also committed to contribute to regional security through active participation in new multi-lateral fora like the ASEAN Regional Forum. Through such multi-lateral mechanisms the countries of the region seek to develop new cooperative approaches to achieve greater stability and security. Additionally, the Pacific Command sponsors multinational military activities. The Clinton Administration is open and receptive to these approaches. From our perspective, they will complement, but not supplant, United States bilateral ties in the region.

Within this broad strategic context, the specific security objectives we will pursue include the following:

- work with allies and friends to refocus our security relations on the new post-Cold War challenges;

- strengthen our bilateral partnership with Japan which serves as the basic mechanism through which we work together to promote regional and global security;
- maintain our strong defense commitment to and ties with the Republic of Korea, in order to deter aggression and preserve peace on the Peninsula;
- work closely with our ally Australia to pursue the numerous security objectives our nations share;
- engage China and support its constructive integration into the international community, including participation in global efforts to limit proliferation of weapons of mass destruction and foster transparency in its defense policy and military activities;
- fully implement the Agreed Framework on North Korea's nuclear program while standing ready to respond if North Korea does not meet its obligations or threatens United States allies;
- work with Russia to develop mutually advantageous approaches that enhance regional stability;
- contribute to maintaining peace in the Taiwan Strait;
- work with ASEAN and others to explore new "cooperative security" approaches through the ASEAN Regional Forum (ARF);
- encourage creation of a sub-regional security dialogue in Northeast Asia;
- support efforts by countries in the region to strengthen democracy;
- continue to seek the fullest possible accounting of those missing in action from the wars the United States has fought in the region in defense of others;
- prevent the proliferation of weapons of mass destruction; and
- work to halt the flow of narcotics.

USN Photo by Clement

During earthquake relief efforts, Japanese Self Defense Force (JSDF) personnel unload blankets contributed by United States Forces, Osaka, Japan, January 19, 1995.

America's Permanent Interest in the Security of the Asia-Pacific Region

United States interests in Asia have been remarkably consistent over the past two centuries: peace and security, commercial access to the region; freedom of navigation; and the prevention of the rise of any hegemonic power or coalition. Recent trends, particularly the increasing economic importance of Asia and the political and security uncertainties in the region in the wake of the Cold War, have clarified United States' interests in the region. Recent events have also highlighted the importance of our military presence in Asia to United States operations around the globe.

America's vital national interests are clearly stated in the President's National Security Strategy:

- to preserve the survival of the United States as a free and independent nation, with its fundamental values intact and its institutions and people secure;

- to advance a healthy and growing United States economy to ensure opportunity for individual prosperity and a resource base for national endeavors at home and abroad;

- to promote a stable and secure world, where political and economic freedom, human rights, and democratic institutions flourish; and

to enhance a system of healthy, cooperative and politically vigorous relations with allies and friendly nations.

United States security objectives and foreign policy are geared toward furthering these mutually reinforcing domestic and international interests.

Since World War II, the United States has been the predominant power in the Asia-Pacific region. During the Cold War, our national security objectives centered on defending American territory as far forward as possible, global containment of the Soviet Union, and protecting friends and allies. Our military strategy, dictated largely by the distances involved in transiting the Pacific Ocean, was to forward station forces to permanent bases, primarily in Japan, Korea and Southeast Asia.

We complemented our presence through the development of a range of bilateral security arrangements. This approach continues to be appropriate because the leading states in the Asia-Pacific region have diverse threat perceptions and disparate cultures, histories, political systems, and levels of economic development.

The United States' network of diverse bilateral relationships in the 1990's includes mutual security alliances, a variety of access arrangements, and informal periodic military-to-military exercises and exchanges. These bilateral relationships address numerous security concerns that are often unique to individual nations in the region. Taken as a whole, however, they have formed a strong regional network promoting peace and security. The United States has six security commitments in the Asia-Pacific region, including security treaties with Japan (September 8, 1951), the Republic of Korea (October 1, 1953), Australia (September 1, 1951), the Republic of the Philippines (August 30, 1951), and Thailand (September 8, 1954); and the Compact of Free Association with the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau (signed November 4, 1986). These bilateral commitments remain inviolable, and the end of the Cold War has not diminished their importance. Moreover, United States interest in developing layers of multilateral ties in the region will not undermine the significance of core bilateral ties.

What Does Asia's New Economic Success Mean for American Interests?

The Asia-Pacific region is currently the most economically dynamic region in the world, and on that basis alone its security would be critical to America's future. The prosperity of Asia is, in part, a result of successful American policies that have underwritten Asian security and have underpinned Asia's economic development. The Pacific Rim today is collectively the United States' largest trading partner. We expect Asia and the Pacific (excluding the United States) to account for about one-third of the world's economic activity at the start of the next century. Asia's prosperous stability is in turn vital to America's economic health and to the world's security.

Asia's recent growth rates have outpaced those of the rest of the world. Indonesia, Korea, Malaysia, Singapore, Thailand, and Taiwan have grown on average over 7 percent for the last five years. China's economy has grown over nine percent per year for the last decade. The People's Republic of China's southern and coastal areas are enjoying a market-oriented manufacturing boom and are increasingly integrated with other economies, particularly Hong Kong, and Taiwan. The Republic of Korea, one of Asia's greatest success stories, has moved from a subsistence economy to advanced manufacturing in a single generation.

If high savings rates, strong emphasis on education, pragmatic market-based economic policies and, with few exceptions, relatively stable politics continue to characterize Asia's economies, economic growth is likely to be sustained. Asia's growth has given rise to a middle class and a large new consumer population. Ambitious development plans are creating a huge demand for infrastructure. The People's Republic of China, Taiwan, and Hong Kong, for example, plan to spend over $500 billion on infrastructure improvements by the year 2000. All of these trends make it certain that Asia will be an increasingly important market for the United States.

The United States economy will be strengthened through trade and investment opportunities offered by the dynamic Asian economies. The American economy is increasingly dependent on trade; as a share of Gross Domestic Product, merchandise exports have doubled in the last two decades from 5.5% to 11.6%. Much of the growth of this sector is attributable to Asia. During the 1970s and 1980s, United States exports to the Asia-Pacific region grew twice as fast as exports to the European Community. American two-way trade with Asia today accounts for more than 36% of total American world trade. On a per capita basis, people in Asian countries import more American goods than do people in European countries. United States exports to the Asia-Pacific region are growing toward a third of worldwide United States merchandise exports.

Asia's international financial role has naturally grown as well; some 40 percent of global bank reserves are now in seven leading East Asian economies, compared with only 17 percent in 1980. Japan, the People's Republic of China, Taiwan, Hong Kong and Singapore together have foreign exchange reserves totaling 270 billion dollars. Our reliance on these and other sources of foreign capital further underscores Asia's growing importance to the United States.

Much of Asia's economic growth has a direct relationship to its security environment. As an example, Asia's demand for oil from outside the region makes the security of access routes imperative. The Asia and Pacific region's (excluding the United States) oil demand of 14.5 million barrels per day in 1992 was larger than that of Europe, making it the second largest oil consuming region after North America. The Persian Gulf now supplies 70% of the region's total oil imports; by the turn of the century, over 90% of imports from outside the Asia-Pacific region are expected to come from the Persian Gulf. United States and Asian interests are clearly served by the maintenance of the sea lines of communication that support worldwide trade in oil and other goods.

Growing regional dependence on oil from the Middle East highlights the importance of America's ability to move forces through the sea lines to support contingencies in the Middle East.

In this context, United States military presence in the region supports many of our broad objectives and those of our allies. It guarantees the security of sea lanes vital to the flow of Middle East oil, serves to deter armed conflict in the region, and promotes regional cooperation. It also denies political or economic control of the Asia-Pacific region by a rival, hostile power or coalition of powers, preventing any such group from having command over the vast resources, enormous wealth, and advanced technology of the Asia-Pacific region. The United States presence also allows developing countries to allocate resources to economic growth and expands markets for United States exports. By helping to preserve peace, expenditures on our continuing defense presence deter conflicts whose costs would be far greater.

In short, the stability and prosperity of the Asia-Pacific region is a matter of vital national interest affecting the well-being of all Americans. Our economic prospects, the promotion of democratic values and human rights, and our traditional security interests all require sustained engagement by the United States in this important region. Maintaining a credible security presence in Asia is vital to the post-Cold War international system now taking shape.

What Are the Challenges and Opportunities Facing America in Asia?

Asia is characterized by diversity—ethnic, religious, cultural, linguistic and geographic. Historical animosities remain strong; a sense of cohesion has been lacking. From the first Sino-Japanese war through the Sino-Soviet confrontation, and conflicts in Korea, Vietnam, and Cambodia, there has been a pattern of recurrent confrontation and conflict among the major powers in Asia. While we no longer face a hegemonic Soviet threat in Asia and the Pacific, we still confront a challenging military threat on the Korean peninsula, as well as a complex array of re-emergent tensions.

Many of these challenges derive from the coming transitions in key East Asian states—the outcome of which will determine to a large extent the nature of the future East Asian security environment. The social, economic and political transition now occurring in Asia is encouraging but uncertain. Leadership transitions could have a major impact on security and stability of the region. In addition, threats of proliferation of weapons of mass destruction, emerging nationalism amidst long-standing ethnic and national rivalries, and unresolved territorial disputes add to a political landscape of potential instability and conflict. We can not ignore Asia's long-standing antagonisms; nearly all countries of the region carry memories of distrust and suspicion resulting from historic conflicts.

If the United States does not provide the central, visible, stabilizing force in the Asia and Pacific region, it is quite possible that another nation might—but not necessarily in a way that meets America's fundamental interests and those of our friends and allies. Insecure nations will build up their armaments. Arms races could in turn foster fear and instability.

If the American presence in Asia were removed, the security of Asia would be imperiled, with consequences for Asia and America alike. Our ability to affect the course of events would be constrained, our markets and our interests would be jeopardized. To benefit from the growth and prosperity of the Asia-Pacific region, the United States must remain fully engaged economically, diplomatically, and militarily.

Our engagement in the region must also take into account changes in the international environment, domestic political and economic realities, and the ability of our allies and friends to share responsibility in shaping a new era and maintaining regional security and prosperity. Our strategy is designed to reflect all these elements.

Careful handling and appropriate policies will determine whether challenges facing Asia create turmoil, instability or conflict on the one hand, or become opportunities to promote stability and ensure peace on the other. The following *tour d' horizon* describes key sub-regional challenges and opportunities for United States security policy in Asia today:

Engagement: Modernizing and Strengthening Our Alliances and Friendships

Japan

There is no more important bilateral relationship than the one we have with Japan. It is fundamental to both our Pacific security policy and our global strategic objectives. Our security alliance with Japan is the linchpin of United States security policy in Asia. It is seen not just by the United States and Japan, but throughout the region, as a major factor for securing stability in Asia. The President has made clear that our overall relationship with Japan is composed of three pillars—our security alliance, political cooperation, and economics and trade. We must not allow trade friction to undermine our security alliance, but if public support for the relationship is to be maintained over the long term, progress must continue to be made by both sides in addressing fundamental economic issues.

Japan's new global role involves greater Japanese contribution to regional and global stability. Japan is the world's largest Official Development Assistance provider and has increased its involvement in humanitarian and peacekeeping efforts around the globe, including in Mozambique and Zaire. Japan supports emerging democracies, particularly in Asia. Japan's continuing close cooperation with the United States in a strategic partnership, including generous host nation support arrangements, is conducive to regional peace and stability and supports broad mutual global objectives.

The Republic of Korea

Our security relationship with the Republic of Korea continues to be central to the stability of the Korean Peninsula and Northeast Asia, as it has been for over forty years. The Republic of Korea-United States combined defense structure rests on three strong pillars: the 1953 Mutual Defense Treaty, Combined Forces, and the annual Security Consultative process. The United States also continues to support South-North talks on tension reduction efforts. Until North and South Korea find a peaceful solution to their differences, we remain committed to the terms of the forty-five year old Armistice Agreement. The Armistice Agreement and its mechanisms must remain until an appropriate agreement supersedes them. Only South and North Korea can resolve the division of Korea, and therefore replacement of the Armistice by an appropriate agreement can come about only through direct dialogue between South and North Korea.

The relationship between the United States and the Republic of Korea is more than a treaty commitment, it is a vital component in our national objective of supporting and promoting democracy. Even after the North Korean threat passes, the United States intends to maintain its strong defense alliance with the Republic of Korea, in the interest of regional security.

Australia

The United States and Australia have enjoyed a long tradition of close political-military consultation, cooperation and warm friendship, beginning even before the 1951 ANZUS Treaty. The enduring strength and vitality of the relationship

DoD Photo by Stikkel

Secretary of Defense William J. Perry traveled to Tokyo, Japan on October 22, 1994. Here he is greeted at a working breakfast by Defense Minister Tamazawa Tokuichiro.

has been sustained through periods of changing international strategic circumstances, demonstrating the depth of our shared interests. In its Defense White Paper published in December 1994, Australia detailed a forward-looking policy for the next fifteen years focusing on the development of a versatile defense force capable of defending Australia, sustaining alliance commitments to the United States and intensifying contributions to regional and global security.

The United States-Australia alliance makes a major contribution to regional stability and facilitates United States military activities and deployments in the region, through providing access to Australian ports, airfields and training facilities, through bilateral and multilateral exercises, and through vigorous programs for intelligence and scientific cooperation. Australia hosts and operates with the United States several joint facilities that make key contributions to United States, regional and global security. Australia shares many key American foreign policy goals, is a major contributor to international peacekeeping and nonproliferation efforts, and is a strong partner in international fora such as the ASEAN Regional Forum, Asia Pacific Economic Cooperation (APEC), General Agreement on Tariffs and Trade (GATT) and the United Nations. These many practical contributions make Australia an invaluable strategic partner; accordingly we will continue to nourish the relationship as we approach the next century.

ASEAN Countries

The emergence of the Association of Southeast Asian Nations (ASEAN) as an increasingly influential regional actor has been an important positive development. Its members are Brunei, Indonesia, Malaysia, the Republic of the Philippines, Singapore and Thailand. The United States shares an interest with these ASEAN countries in precluding Southeast Asia from becoming an area of strategic competition among regional powers. Two members of ASEAN, the Republic of the Philippines and Thailand, are treaty allies of the United States, with commensurate security obligations; the other members are long-time friends. We are seeking to broaden our network of access and prepositioning arrangements throughout Southeast Asia to facilitate bilateral training, exercises, and interoperability, thereby enhancing our ability to work with allies and friends in crises.

New Zealand

New Zealand has traditionally adhered to a defense strategy based on collective security through participation in the ANZUS Security Treaty of 1951. However, since 1984, New Zealand has pursued policies, later enacted as legislation, which effectively prohibit ship visits under our policy of neither confirming nor denying the presence of nuclear weapons aboard specific ships or aircraft or by nuclear-propelled ships. Thus the United States suspended security obligations to New Zealand under the provisions of the ANZUS Alliance in August 1986.

Since 1994, we have upgraded our political and military contacts. It is our hope that in the future New Zealand will take the action necessary to restore its place in the ANZUS alliance. We are also interested in helping New Zealand maintain its existing military equipment and capability to play a role in regional security. New Zealand's contributions to peacekeeping and humanitarian missions around the world are admirable. It has participated in the UN multinational force during the Persian Gulf war and in UN peacekeeping efforts in Cambodia, the former Yugoslavia, Somalia, and Angola, as well as providing police in Haiti.

Pacific Islands

Many nations of the South Pacific Forum sit astride shipping lanes between the United States and our major trading partners in Southeast Asia, Australia and New Zealand. We have economic interests in the region, including access to some of the world's richest fishing grounds. In their first decades of independence, these countries have played an important role in regional and international peacekeeping efforts and have been a persuasive and effective voice in international fora. The United States has specific legal responsibility for the defense of the strategically important United States territories of Guam and American Samoa, the Commonwealth of the Northern Marianas and, under the Compact of Free Association, for the Republic of the Marshall Islands, the Republic of Palau and the Federated States of Micronesia.

The Desirability of Exploring New Multilateral Security Initiatives

A significant new element of this Administration's Asian security policy has been constructive participation in and support for regional security dialogues.

As President Clinton said in Korea, "Some in the United States have been reluctant to enter into regional security dialogues in Asia, but I see this as a way to supplement our alliances and forward military presence, not to supplant them. These dialogues can ensure that the end of the Cold War does not provide an opening for regional rivalries, chaos and arms races." Our participation in these dialogues is an important element of our security engagement in the region.

The interest in new multilateral approaches to regional security arose from the uncertainties created by the end of the Cold War and concerns aroused by the United States' departure from its bases in the Philippines. At the same time, the increasing economic integration and interdependence of the Asia-Pacific region has given nations a shared interest in preserving the peace that underpins their prosperity. Because relations among the major powers in Asia are more constructive than at any time in the past century, the post Cold War period provides an excellent and unique opportunity to shape a positive and cooperative security environment in the Asia-Pacific region.

Working with ASEAN, the United States has supported the establishment of a new security forum for the region. In 1993, ASEAN proposed and others agreed to create the ASEAN Regional Forum (ARF) as Asia's first broadly based consultative body concerned with security issues. In contrast to Cold War collective defense against a common enemy, the ARF was conceived as an inclusive group not directed against any country. The ARF, which met for the first time in July 1994, includes the ASEAN countries, the United States, Australia, Canada, China, European Union, Japan, the Republic of Korea, Laos, New Zealand, Papua New Guinea, Russia, and Vietnam. Its initial purpose is to provide a forum for consultation on security issues in the Asia-Pacific region.

The United States believes the ARF can play a useful role in conveying governments' intentions, easing tensions, constraining arms races and cultivating habits of consultation and cooperation on security issues. We envision that the ARF will develop over time into an effective region-wide forum for enhancing preventive diplomacy and developing confidence-building measures. We believe that discussion of modest defense transparency measures would be a constructive area for future work. Discussions might include such measures as limited exchanges of defense data, the publication of defense white papers, and submission of information to the UN arms register. Efforts in areas such as disaster relief and peacekeeping could also help establish patterns of cooperation. Furthermore, the ARF presents an opportunity for a non-confrontational discussion of the relevance of democratization for regional security.

Historically, Northeast Asia is the area where great power interests have clashed most sharply. Consequently, the United States believes that the unique long term security challenges in Northeast Asia argue strongly for the creation of a separate sub-regional security dialogue for Northeast Asia. Such a dialogue would be developed in close consultation with our allies, Japan, and the Republic of Korea. To lay the groundwork for establishing such a forum, the United States has participated in a series of mixed government/academic conferences on Northeast Asian security issues with Japan, the Republic of Korea, China and Russia. North Korea has been invited but has participated only in a preparatory session. The pattern of consultations among key countries for many months, which led to the October 1994 Agreed Framework between the United States and North Korea, may help create conditions for establishing a Northeast Asia security dialogue.

These and other multilateral consultations on security issues are elements in the "overlapping plates of armor" for regional security described in the President's July 1993 speech in Seoul. Our other multilateral consultations include *ad hoc* coordination on the North Korean nuclear issue; policy planning talks with Japan, the Republic of Korea and other allies; and participation in mixed government/academic United States-Japan-Russia trilateral meetings.

Enlargement: Reaching Beyond our Traditional Allies and Friends

China

The rapid growth in China's material strength has raised the importance of China in the Asian security equation. China is a nuclear weapons state, a leading regional military power and a global power with a permanent seat on the UN Security Council. Although it still has a low GNP per capita compared to other leading economic powers, it has one of the largest and fastest-growing economies in the world. It is thus essential for peace, stability, and economic growth in the Asia-Pacific region that China is stable and continues to develop friendly relations with its neighbors. The Chinese leadership has asserted that international peace and stability are prerequisites for China's achieving its economic modernization goals. In the early 1990s, China has normalized relations with Indonesia, Singapore, Vietnam, and the Republic of Korea, hosted the first-ever visit by Japan's emperor, and agreed to participate actively in multilateral organizations like APEC and the ASEAN Regional Forum (ARF).

China's published defense budget figure has doubled in the past five years, with real growth—adjusted for inflation—estimated at about 40 percent. This

DoD Photo by Stikkel

Secretary of Defense William J. Perry (third from left) traveled to Beijing, China on October 16, 1994. At the National Defense University, Secretary Perry spoke to senior officers assembled there. He was accompanied by Senator Sam Nunn (D-GA), Chairman, House Armed Services Committee (center); and U.S. Ambassador to China J. Stapleton Roy (far right).

figure probably does not encompass all of China's defense expenditures. By comparison, American, Japanese and Russian defense spending has either remained level or decreased in the same period. China is investing in modern fighter aircraft, including Russian SU-27s, as well as other new-generation military capabilities. It has expanded its blue-water naval capabilities, and there is persistent speculation that it intends to acquire an aircraft carrier. Much of the Chinese defense budget increase represents growth from a low base, plus China's effort to replace obsolete equipment, adjust doctrine to the new global security environment, and improve the professionalism of its armed forces of 3.2 million. China also continues to conduct underground nuclear tests, as part of its overall strategic weapons modernization program, but has indicated interest in the Comprehensive Test Ban Treaty that may be signed in 1996.

China's military posture and development have a great impact on the expectations and behavior of other states in the region. Although China's leaders insist their military build-up is defensive and commensurate with China's overall economic growth, others in the region cannot be certain of China's intentions, particularly in this period of leadership transition. China's military modernization effort is in an early stage, and its long-term goals are unclear. Moreover, it has territorial disputes with several neighboring states. Absent a better understanding of China's plans, capabilities and intentions, other Asian nations may feel a need to respond to China's growing military power. This will be particularly true as China modernizes its strategic forces, naval assets and other forces capable of power projection. The United States and China's neighbors would welcome greater transparency in China's defense programs, strategy and doctrine.

The United States, for its part, is enhancing its military dialogue with China in order to promote better mutual understanding, as well as greater transparency and trust. This dialogue is maintained through periodic high level visits, participation in professional fora, and functional exchanges. Through the newly established Defense Conversion Commission, we hope to facilitate cooperation between Chinese defense enterprises and American businesses in civilian production.

Russia

Russia is an Asia-Pacific regional power and an adverse shift in Moscow's policies would have an impact on Asia's security. On April 4, 1993, at the Vancouver meeting between President Clinton and President Yeltsin, the two presidents "declared their firm commitment to a dynamic and effective United States-Russian partnership that strengthens international stability." This commitment has great relevance for the Asia-Pacific region. Russia has contributed to international efforts toward peace, notably in connection with Cambodia and North Korea. Similarly, Russia has worked together with China to de-militarize their long contiguous border. Russian officials and scholars participate constructively in the various official and semi-official fora to promote regional stability and security. Russia has a significant role to play in preventing the emergence of future security problems in Asia and the Pacific.

Vietnam

On February 3, 1994, President Clinton announced the decision to lift the provisions of the Trading With The Enemy Act that prohibited Americans from doing business in Vietnam, and to expand the official United States presence in Vietnam to the level of a liaison office. A year later, the United States and Vietnam opened liaison offices in Hanoi and Washington. President Clinton has stated that "the best way to ensure cooperation from Vietnam and to continue getting the information Americans want on POWs and MIAs is to end the trade embargo." Our major policy interest in Vietnam continues to be accounting for United States Service personnel missing in action from the war in Vietnam. Our interest is undiminished in pressing forward on joint field investigations, live-sighting investigations, trilateral work on the Lao Border Cases, the repatriation of remains, and archival research that can shed light on the fates of missing Americans and the disposition of their remains.

At the same time, we remain interested in the protection of human rights in Vietnam, which exercises tight control over "dissidents," and enforces strict rules governing public protest, speech and publication. We also have an interest in addressing narcotics issues with Vietnam.

Vietnam plays an increasingly important role in the region. The Association of Southeast Asian Nations (ASEAN) believes that economic ties will integrate Vietnam, Laos, and Cambodia into the Southeast Asian community of nations. In this coming year, Vietnam may well become a full member of ASEAN. Since 1990, Vietnam has pursued an "open door" foreign policy aimed at increasing access to markets, opening opportunities for international development assistance, and attracting foreign investment.

The Benefits of Implementing the Agreed Framework with North Korea

Since 1993, the United States has worked intensively with the Republic of Korea and Japan to secure North Korea's commitment to halt, and ultimately dismantle, its nuclear program. We have sought to preserve regional peace and stability while also ensuring that the Korean Peninsula remains verifiably free of nuclear weapons. The October 21, 1994 Agreed Framework with the Democratic People's Republic of Korea (DPRK) takes a major step toward achieving those vital goals. At the same time, the agreement secures North Korea's pledge to engage in dialogue with the South. The Agreed Framework also offers the first opportunity since the end of the Korean War for a significant opening of North Korea's society to positive influences from outside.

The Agreed Framework calls for an immediate halt to operations of all elements of the North Korean graphite-moderated nuclear reactor program under a monitored freeze, and begins to bring the DPRK into compliance with its fullscope safeguards obligations. The DPRK is committed, over time, to dismantle its three nuclear reactor complexes, its reprocessing plant, and other related facilities as well as forego any spent fuel reprocessing. These commitments go well beyond the requirements of the Non-Proliferation Treaty (NPT). In return, the DPRK will receive two light-water reactors (LWRs) that generate electricity with far less risk of plutonium diversion. Financing for these reactors will be provided by the Korean Energy Development Organization (KEDO), an international consortium. In addition, the DPRK will be supplied heavy fuel oil to replace the electrical power that would have been generated over the next several years by the graphite-moderated reactors. The new LWR reactors and alternate energy will be provided only if North Korea sustains the freeze and proceeds with the dismantlement timetable laid out in the Agreed Framework.

Key United States objectives are achieved in the Agreed Framework. First, it represents a significant step toward sustaining peace and stability in Northeast Asia by addressing the most prominent security concern of all countries in the region. Second, it ensures that the DPRK will not acquire, through reprocessing, the 25 to 30 kilograms of plutonium now contained in spent fuel rods. North Korea will not be able to exploit the much larger plutonium-producing potential of reactors that it would have brought on-line over the next two years, because of the agreed freeze. Third, it assures that the DPRK's freeze in nuclear activity is verified by the IAEA and will bring the DPRK into full compliance with the Non-Proliferation Treaty (NPT), by resolving the question of its past nuclear activities. Fourth, the Agreed Framework will result in dismantling nuclear facilities that lend themselves to destabilizing proliferation activity. This latter aspect marks the agreement as going well beyond the requirements of the NPT in ensuring that the DPRK does not develop nuclear weapons.

The Agreed Framework is only the beginning of a long path to complete resolution of the nuclear issue with North Korea. The United States will insist on complete implementation at every stage. The agreement does not preclude recourse to any unilateral or multilateral measures should the DPRK renege on the terms of the agreement. The terms were crafted in a way that does not depend on trust of North Korea's intentions, but on its observable actions. If North Korea breaks the agreement, it knows the consequences will be severe.

DoD Photo by Ward

Cambodian Co-minister of Defense Tea Chamrath (left) visited the Pentagon, November 7, 1994, as the guest of Secretary of Defense William J. Perry (right). Chamrath met with Perry and other senior U.S. defense officials to discuss issues of mutual interest to both nations.

It is important to note that stability will remain a concern for the United States even after the agreement is fully implemented, and North Korea reaches broad accommodation with the South on a wide range of differences. North Korea's history of isolation from the rest of Asia has been a source of instability. When that doctrine is discarded, North Korea will find opportunities for mutually beneficial relationships throughout Asia. American interests, however, will continue to focus on security on the Peninsula and throughout the region as a whole. United States forces will continue to underwrite the stability of this region as long as they are welcome.

The Importance of Addressing Long-standing Regional Issues

North Korea

North Korea remains a source of unpredictability and potential danger for the region. Its excessive emphasis on military development at the expense of basic economic, political, and social development poses a threat to its neighbors. Even with a badly deteriorating economy and years of poor harvests, North Korea has given priority to its military structure. North Korea continues to expend its national resources to:

- mechanize its huge, offensively postured ground forces;
- expand its already massive artillery formations;
- enhance the world's largest special operations force; and
- improve its large ballistic missile arsenal.

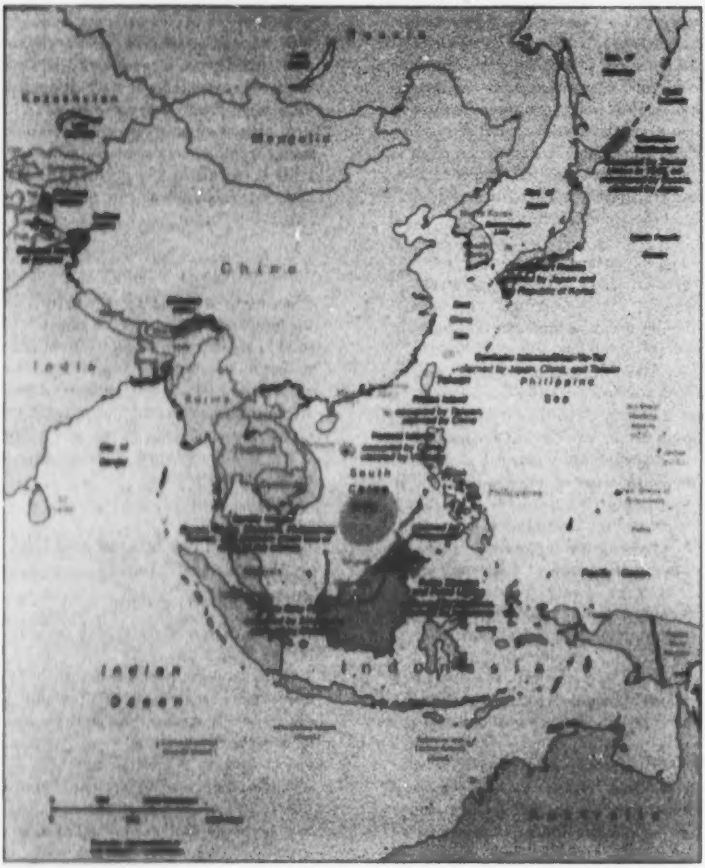
North Korea's history of aggression, threats to peace, and exports of missile technology have created a context in which its development of nuclear weapons would be an extremely dangerous threat to security on the Peninsula, in Asia and for global non-proliferation. At the same time, North Korea's conventional military threat to the Republic of Korea has not abated, and requires continued vigilance and commitment of United States forces.

Cambodia

Cambodia is emerging from two decades of war and chaos that followed the Khmer Rouge seizure of power in 1975. Cambodians have demonstrated their commitment to peace and democracy in the face of extraordinary odds and seemingly insurmountable obstacles. They have elected a government, written a constitution, and embarked on the tremendous task of rebuilding the country. Since the formation of its new government, Cambodia has made significant progress toward developing governing institutions, advancing respect for human rights, and establishing a market-oriented economy.

Despite these successes, Cambodia still faces serious reconstruction, development, and security challenges, including a continuing Khmer Rouge insurgency, as well as structural weaknesses in its fledgling democratic institutions. The continued support of the international community, including the United States, is essential for the growth of this emerging democracy. The United States participated in the process aimed at ending the long and tragic conflict in Cambodia and supported the United Nations peacekeeping effort. We intend to provide reconstruction and rehabilitation assistance, and non-lethal humanitarian assistance for the Cambodian military. This will include International Military Education and Training aimed at developing a professional military supportive of fundamental democratic institutions.

Boundary and Territorial Disputes in East Asia


Russia
Kazakhstan
Mongolia
China
India
Burma
South China Sea
Philippine Sea
Philippines
Indian Ocean
Indonesia
Australia

Territorial Disputes

Contested claims to islands and territorial waters in the South China Sea are a source of tension in Southeast Asia that could carry serious consequences for regional stability. There are six claimants to parts of the Spratly Islands—the People's Republic

BEST COPY AVAILABLE

of China, Taiwan, Vietnam, the Philippines, Malaysia and Brunei. All but Brunei maintain a military presence in the contested area, which is believed to be rich in oil deposits. The United States has urged peaceful settlement of South China Sea issues, and strongly opposes the threat or use of military force to assert any nation's claim. The United States takes no position on the legal merits of the competing claims and is willing to assist in the peaceful resolution of the dispute.

Southeast Asian initiatives in recent years have led to encouraging developments on this seemingly intractable dispute and have illustrated the value of ad hoc multilateral approaches to regional security. Indonesia has sponsored a series of unofficial workshops on managing potential conflict in the South China Sea. Participants include private experts, academics, and government officials attending in a non-official capacity from the claimants, as well as observers from several non-claimants. They have agreed that the key to continued progress toward long-term resolution of the Spratlys dispute is to avoid reaching too quickly for a resolution to the competing claims of sovereignty. In addition, some claimants, including China and Vietnam, have been pursuing important bilateral discussions aimed at peacefully addressing issues in the Spratlys.

It is worth noting in this context that the United States regards the high seas as an international commons. Our strategic interest in maintaining the lines of communication linking Southeast Asia, Northeast Asia and the Indian Ocean make it essential that we resist any maritime claims beyond those permitted by the Law of the Sea Convention.

Continued Russian occupation of Japan's Northern Territories is another source of tension in East Asia and stands in the way of a Russo-Japanese peace treaty. The United States recognizes the legitimacy of Japan's claim to the Northern Territories. Progress in Japan-Russia negotiations on Northern territories issues would enhance peace and stability in Northeast Asia generally and accelerate Russia's long term integration in the Asia-Pacific region.

Taiwan

Peace in the Taiwan Strait has been the long-standing goal of our policy toward Taiwan. United States arms sales to Taiwan are designed to serve this end. We welcome the growing dialogue between Taipei and Beijing and applaud actions on both sides which increase the possibility of a peaceful resolution of the situation in the Taiwan Strait.

Combating the Spread and Use of Weapons of Mass Destruction and Missiles

Weapons of mass destruction—nuclear, biological, and chemical—along with their delivery systems, pose a major threat to our security and that of our allies and other friendly nations. Our strategy seeks to stem the proliferation of such weapons and to develop an effective capability to deal with these threats. Regional Theater Missile Defense Systems have a key role to play in this strategy and are essential to counter long range ballistic missile delivery systems in the inventory of many East Asian nations. We also need to maintain robust strategic nuclear forces while seeking to implement existing strategic arms agreements. Accordingly, the United States is reconfirming the nuclear umbrella it extends to our allies in the region, while pursuing bilateral and multilateral talks to cap, then reduce, weapons of mass destruction.

Levels of cooperation with our nonproliferation efforts by Asian countries will be among our most important criteria in judging the nature of our bilateral relations. As a key part of our effort to control nuclear proliferation, we seek the indefinite extension of the Nonproliferation Treaty (NPT), and its universal application. Achieving a Comprehensive Test Ban Treaty as soon as possible, ending the production of fissile materials for nuclear weapons purposes, and strengthening the Nuclear Suppliers Group and the International Atomic Energy Agency (IAEA) are also important goals. They complement our comprehensive efforts to discourage the accumulation of fissile materials, to seek to strengthen controls and constraints on those materials and, over time, to reduce world-wide stocks.

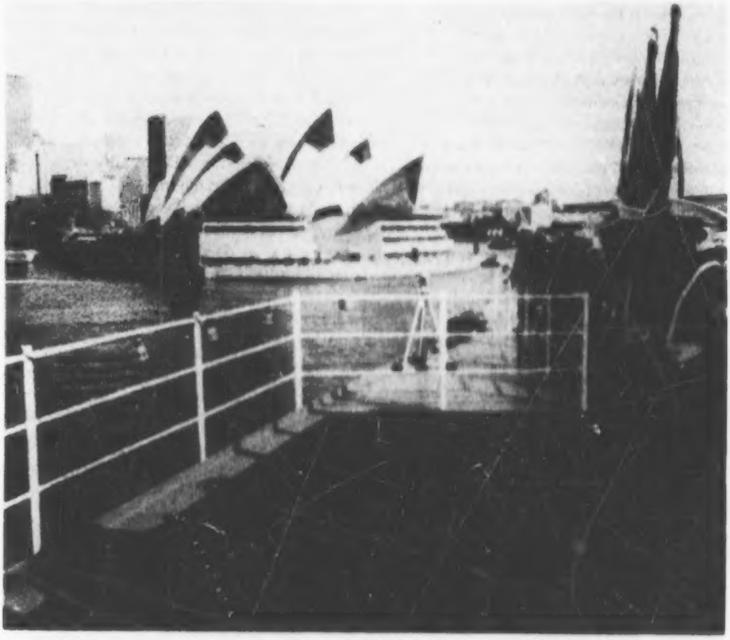
To combat missile proliferation the United States urges all countries to adhere to the Missile Technology Control Regime (MTCR) guidelines and seeks prudently to broaden membership of the MTCR. The United States supports the prompt ratification and earliest possible entry-in-force of the Chemical Weapons Convention (CWC) as well as new measures to increase transparency of, and enhance compliance with, the Biological Weapons Convention (BWC). We also support improved export controls for nonproliferation purposes both domestically and multilaterally. The proliferation problem is global, but we must tailor our approaches to specific regional contexts.

We are leading international efforts to bring North Korea into compliance with its nonproliferation obligations, including the NPT, IAEA safeguards, and the North-South denuclearization accord. We also seek vigorously to curb North Korean exports of missiles.

The United States and the People's Republic of China signed a joint statement on October 4, 1994, that reaffirmed China's original commitment to the MTCR including the concept of "inherent capability." China also agreed to ban all exports of ground-to-ground MTCR-Class missiles. This commitment goes beyond MTCR requirements in that the MTCR subjects such exports to a "strong presumption of denial" rather than a complete ban. Both sides agreed to hold future in-depth discussions on the MTCR, the United States Government is working toward eventual Chinese membership in the MTCR. China's commitment permitted the United States to lift the sanctions imposed on Chinese entities in 1993.

The United States seeks to prevent countries from acquiring chemical, biological and nuclear weapons and the means to deliver them. However, United States forces and those of our allies in the region must also be prepared to deter, prevent and defend against the use of such weapons. The United States will retain the capacity to respond to those who might contemplate the use of weapons of mass destruction, so that the costs of such use will be seen as outweighing the gains. However, to minimize the impact of proliferation of weapons of mass destruction on our interests, we will need the capability not only to deter their use against either ourselves or our allies and friends, but also, where necessary and feasible, to prevent and defend against it. The fielding of Theater Missile Defense (TMD) systems in the region will be a key element of this non-proliferation strategy.

Finally, it is the maintenance of United States security commitments, notably to Japan, and America's force levels in the region, which bolster the sense of security and help forestall possible attempts to build a nuclear weapons capability.



USN Photo

The amphibious command ship USS Blue Ridge *(LCC-19) in Sydney harbor (1992).*

United States' Force Structure in Asia for the Rest of the Century

The Rationale for Continued United States Forward Presence in Asia

United States military forward presence in the Asia-Pacific region is an essential element of regional security and America's global military posture. Forward deployed forces in the Pacific ensure a rapid and flexible worldwide crisis response capability; discourage the emergence of a regional hegemon; enhance our ability to influence a wide spectrum of important issues in the region; enable significant economy of force by reducing the number of United States forces required to meet national security objectives; overcome the handicaps of time and distance presented by the vast Pacific Ocean; and demonstrate to our friends, allies and potential enemies alike a tangible indication of the United States' interest in the security of the entire region.

Nothing conveys the same clear message of our security commitment as much as our visible United States military presence, proving we are engaged and consulting closely with our allies and friends, vigilant to protect our shared interests. The United States is trusted in Asia, partly because we send our sons and daughters to stand as guarantors of peace and security in Asia. The United States has the capability, credibility, and even-handedness to play the "honest broker" among nervous neighbors, historical enemies, and potential antagonists.

After the Cold War, American ground forces forward deployed in Asia were adjusted carefully to retain the capability required to keep the peace in Asia and the Pacific. Our forces in the region were reduced from approximately 135,000 in 1990 to approximately 100,000 in 1994. Adjustments will be made from time to time due to changing security environments, technological advancements, and reorganizations required by changes in overall force structure. Our presence in Asia, however, will remain strong enough to address regional requirements and to enable us to respond to global security contingencies, in the Middle East and elsewhere.

During Operations DESERT SHIELD and DESERT STORM, for example, our force structure in Asia successfully provided deterrence to regional threats in Asia, thus allowing forces in Hawaii, California, and elsewhere to deploy to the Middle East. Our bases also facilitated the coalition's response to the Iraqi invasion of Kuwait. Asian nations provided access to ports, airfields, and maintenance facilities for personnel, ships and aircraft transiting the region enroute to the Middle East. Australia and other allies contributed troops and resources to the coalition effort. The United States alliance with Japan was instrumental in Japan's commitment of minesweepers and billions of dollars to offset the expenses of coalition forces. Korea's support of sealift, in-kind support, and expenses offsets was also very important.

Having United States forces in Asia also promotes democratic development in Asia, by providing a clear, readily observable example of the American military's apolitical role. Our overseas presence helps us forge strong bonds with regional military leaders. Through joint exercises and training programs, they gain exposure to American standards of military professionalism, and we gain insight into, and personal ties with, their societies.

Because of a program of cost sharing with our allies, it is actually less expensive to the American taxpayer to maintain our forces forward deployed than in the United States. Cost sharing is exactly that. Japan and the Republic of Korea have indicated they will continue to help defray the costs of maintaining American forces in their countries.

The Clinton Administration's Bottom Up Review, the study initiated by Secretary Aspin "to reassess all of our defense concepts, plans, and programs from the ground up," reflected our continuing commitment to Asia. The Review emphasized sustaining robust United States forces overseas; modernization initiatives that include improvements in United States airlift, sealift, and prepositioned assets to improve crisis response; high leverage improvements in the United States' ability to locate and destroy enemy military assets; and more capable battlefield surveillance platforms and advanced munitions that make the early arriving forces more potent.

To support our commitments in East Asia, we will maintain a force structure that requires approximately 100,000 personnel. In Korea, this includes an Army

Navy photo by Downing

Naval Station, Yokosuka, Japan (1992) – An aerial view of the aircraft carrier USS Ranger *(CV-61) and other United States vessels and ships of the Japanese Maritime Self-Defense Force tied to the piers* division (consisting of two brigades as well as headquarters and support elements) and a United States Air force combat wing. We are also prepositioning military equipment in South Korea to increase our ability to respond to crises. In light of the continuing conventional capability of North Korea, we have permanently halted a previously planned modest drawdown of our troops from South Korea, and are modernizing the American forces there as well as assisting the Republic of Korea in modernizing its forces. We will continue to provide sufficient forces and support assets to constitute a reliable defense capability in Korea that can deter or halt and defeat a North Korean invasion even if our forces are engaged in a major regional contingency elsewhere in the world.

Maintaining our Strong Presence in Japan

United States security policy in Asia and the Pacific relies on access to Japanese bases and Japanese support for United States operations. United States forces in Japan are committed to and prepared for not only the defense of Japan and other nearby United States interests, but to the preservation of peace and security in the entire Far East region. United States bases in Japan are well-located for rapid deployment to virtually any trouble spot in the region. Given the great distances associated with the Pacific theater, assured access to bases in Japan plays a critical role in our ability to deter and defeat aggression.

In Japan, we will continue to station a Marine Expeditionary Force on Okinawa, and will also continue to forward deploy an aircraft carrier battle group, and an amphibious ready group. We will also retain more than one wing of Air Force combat aircraft in Japan, and the Navy's Seventh Fleet will continue routine patrols of the Western Pacific.

Japan supplies by far the most generous host nation support of any of our allies. Japan also provides a stable, secure environment for our military operations and training. Under a January 1991 agreement and other arrangements, the Government of Japan has assumed an increasing share yearly, and will assume virtually all local labor and utility costs of maintaining our forces by this year. Japan also funds leases for land used by United States forces and incurs indirect costs such as waived land use fees, foregone taxes, tolls, customs, and payments to local communities affected by United States bases. Taken together, these categories represent contributions of a magnitude of more than $4 billion annually. As part of its host nation support, Japan also funds facilities construction under the Facilities Improvement Program. This contribution is an additional amount of approximately $1 billion per year.

Gradual defense improvements have made Japan more secure, and significantly enhanced bilateral security in the post-Cold War environment. As a result of a division of roles and missions, in accordance with Japanese Constitutional constraints, Japan has concentrated on defense of the home islands and sea lane defense out to 1000 nautical miles while the United States has assumed responsibility for power projection and nuclear deterrence. This division enhances the operational flexibility of both sides, and provides a practical guide to structuring and maintaining our forces. Most importantly, however, it contributes to overall regional security. The United States-Japan alliance, while mutually beneficial, has far-reaching benefits extending to the maintenance of peace and stability of the entire international community.

Japanese procurement of major United States weapons systems has also been beneficial to both countries. Japan buys large amounts of military equipment and services from the United States every year. Interoperability of major systems, purchased directly or license built, is a major aspect of the security relationship. The long list of United States equipment in Japan's inventory includes AWACS, Patriot, AEGIS, MLRS, F-15s, P-3, C-130, SH-60 and UH-60 helicopter, and numerous gun, missile, torpedo, and sensor programs.

Shortfalls in the Japanese defensive arsenal continue to exist in sea lane defense—including airborne early warning and ship-borne anti-air capability. Deficiencies also exist in land based and ship borne anti-missile capability. However, Japan is in the process of purchasing AWACS and adding AEGIS capability to its fleet. We are also exploring with Japan cooperative efforts in Theater Missile Defense.

The FS-X fighter co-development project, which was controversial in its early stages, has potentially profound benefits. These include transfer to the United States of Japanese defense-related technology, royalties for United States companies, and jobs for United States contractors. There will be future opportunities for aircraft modernization and joint development in a number of areas. We are placing greater emphasis on technology-sharing, which we expect to characterize the future of United States-Japan defense procurement cooperation.

Sustaining Deterrence in Korea

The United States and the Republic of Korea would defeat an invasion of the South by North Korea. A war, however, would cause tremendous destruction on both sides of the DMZ, particularly in and around Seoul, which is the economic, political and cultural center of Korea and only some 26 miles from the Demilitarized Zone. It is therefore important to recognize that the issue in the Republic of Korea (ROK) is not merely winning a war, but more importantly, deterring aggression from North Korea. In this context, our treaty commitment and the presence of United States troops in South Korea help deter any North Korean aggression by making it unmistakably clear that the United States would automatically and immediately be involved in any such conflict.

If we detect signals of an impending attack, we are poised to react decisively. The United States maintains approximately 37,000 military personnel in the Republic of Korea. Their mission is to contribute to deterrence, participate in the defense of the Republic of Korea should deterrence fail, and promote the defensive capabilities of allied forces through combined training. Should deterrence so require, these in-place forces can be promptly augmented.

The morale and spirit of Republic of Korea and United States forces in Korea are impressive, and the joint and combined military planning staffs have an effective working relationship. The Republic of Korea's force improvement plans continue at a steady pace. It continues to modernize its forces through the addition of more powerful and mobile tanks, mid-range and self-propelled artillery, counter battery radars, armored personnel carriers, advanced aircraft and lift helicopters and coastal defense ships. The warfighting capabilities of its ground forces also continue to improve with the formation of more mechanized and armored units. Republic of Korea forces are increasing the number and scope of combat-driven training and exercise scenarios.

Annual Republic of Korea defense spending over the past five years has represented between 24 percent and 30 percent of the its annual national budget or between 3.6 and 4.2 percent of its gross national product. The Republic of Korea also spends a considerable amount of money on United States weapons systems and spare parts —over $3.5 billion in the past five years.

The Republic of Korea also calls on a significant portion of its population for defense-related service, with universal conscription and a strong reserve training program. It fields approximately 650,000 active duty personnel. This force is backed up by over 2, 000,000 ready reserve personnel and a citizenry of millions who have military experience because of universal service. The ready reserve's primary function when mobilized is to reinforce front line Army units and to provide for security in the rear areas. On a day-to-day basis, the vast majority of the overall military forces dedicated to defense of the Republic of Korea are Koreans. Indeed, even if the United States were to deploy forces to a Korean contingency, the great majority of the ground forces defending the Republic of Korea would still be South Korean.

This is in keeping with the United States' global strategy of contributing to regional security in ways that use our comparative advantages. In the case of defending the Republic of Korea, the United States has comparative advantages in naval and air forces and satellite and other intelligence. Thus, although United States ground forces will be needed for the foreseeable future to maintain the strongest possible deterrent, the United States will continue to shift gradually from a leading to a supporting role within the coalition. The transition of the Republic of Korea to the leading role in its own defense is a long-standing policy goal of the United States and reflects the growing maturity and capabilities of the Republic of Korea's armed forces as well as the desires of the Korean people and government. Through training and frequent combined exercises, the combined Republic of Korea-United States force will maintain a high state of readiness.

Progress in the Republic of Korea's assumption of the leading role in its own defense has also been made in the area of command and control of military forces. In 1991, a Republic of Korea Army major general replaced a United States flag officer as Senior Member of the United Nations Command, Military Armistice Commission (UNCMAC). In 1992, we deactivated the Combined (Republic of Korea/United States) Field Army, and a Republic of Korea Army four-star general was assigned, for the first time, as the Combined Ground Component Commander. The return of peacetime, or "Armistice," operational control of Republic of Korea forces to Republic of Korea command occurred December 1, 1994.

Republic of Korea cost-sharing contributions have steadily increased. The Republic of Korea provides support to United States Forces Korea (USFK) through both direct and indirect means. Direct support is provided through the direct cost-sharing program. The cost-sharing support provided by the Republic of Korea to offset USFK's won-based costs is applied to construction, logistics, and local national labor requirements. The Government of the Republic of Korea is committed to providing $ 300 million for FY 1995. In addition, the Republic of Korea provides rent-free bases and facilities and foregoes taxes and customs on American troops. We expect that the Republic of Korea's cost-sharing contributions will continue to increase as its economy grows.

We intend to maintain a combat and support structure with an emphasis on sustainability and logistics infrastructure. These are key elements of deterrence because they represent the means to reinforce our forces rapidly. Our standing combat posture in Korea will continue to include the 2nd Infantry Division which includes two heavy maneuver brigades and one combat aviation brigade. In addition, the United States deploys the 17th aviation brigade and the U. S. 7th Air Force, with a strength of one Tactical Fighter Wing. Fulfilling a proposal of the Bottom Up Review, former Secretary Aspin and former Minister for National Defense Kwon agreed at the 25th SCM (1993) to preposition a heavy brigade set of equipment on the peninsula. In addition to forces stationed in Korea, forces of the United States Seventh Fleet and the Marine Expeditionary Force further contribute to deterrence on the Peninsula.

White House photo

President Clinton is shown here meeting with President Kim Young Sam of the Republic of Korea. This meeting took place in Jakarta, November 14, 1994.

We envision a robust United States security relationship with the Republic of Korea to protect mutual security interests in the region, even if the threat from North Korea were to diminish. We are determined to maintain effective deterrence while supporting constructive contacts between North and South Korea, convinced that the Korean conflict can only be resolved through inter-Korean dialogue.

Recognizing the Value of Access in Southeast Asia

In addition to bases in South Korea and Japan, the United States maintains other forward deployed forces—maritime forces continuously afloat in the Western Pacific; rotational deployments, such as the United States Air Force deployments to Singapore; and temporary deployments, for exercises, humanitarian operations, or other projects. These deployments are dependent in turn on a wide variety of access arrangements. We have formal access agreements, informal agreements for aircraft transits and ship visits, commercial arrangements for ship and/or aircraft repairs and maintenance, and occasional access arrangements with many countries for training and exercise purposes. These access opportunities have expanded in recent years, in part due to regional fears that the closure of United States bases in the Philippines would lead to our departure from the region, and in part as a result of gradually expanding bilateral defense relationships.

Military engagement in the region is also a function of other forms of defense cooperation: personnel exchanges, intelligence sharing, senior-level visits, conferences, bilateral policy dialogues, International Military Education and Training, prepositioning, joint exercises, and military-to-military contact. These mechanisms allow us to demonstrate and support our interest in the region.

Our strategy emphasizes the importance of active bilateral and multilateral exercise programs between the United States services and the armed forces of friendly and allied nations. These exercises provide tangible evidence of our commitment to the region while increasing the operational readiness and capabilities of our Pacific forces. Major joint, combined, and smaller military-to-military exercises take place annually with our allies in Japan, Korea, Australia, the Philippines and Thailand, as do a large number of smaller military-to-military exercises. For example, small training exchanges and exercises by United States Army units stationed in Hawaii, Alaska and Japan with many of the region's ground forces have benefited all participants and demonstrated yet another value of forward presence.

In this context, it is worth mentioning that the International Military Education and Training (IMET) program is an essential element of our regional strategy. By bringing foreign military and defense civilians together with their American counterparts, IMET fosters respect for the principle of civilian control of the military. It influences the development of foreign civilian and military institutions, particularly in management and acquisition matters. It advances effective systems of defense resource management among friends and allies, and facilitates the purchase of interoperable equipment necessary for coalition efforts. It creates and maintains effective military judicial systems and military codes of conduct that give respect to the observance of internationally recognized human rights.

U.S. Defense Engagement in the Asia-Pacific Region

	Defense Reps	High Level Visits	Military Talks	Conferences	Exercises	Education & Training	Port Visits
NORTHEAST ASIA							
China	•	•	•	•		•	•
DPRK							
Japan	•	•	•	•	•	•	•
Korea	•	•	•	•	•	•	•
Mongolia	•	•	•	•	•	•	
Russia	•	•	•	•	•	•	•
SOUTHEAST ASIA							
Brunei	•	•	•	•	•	•	•
Burma	•						
Cambodia	•	•	•	•		•	
Indonesia	•	•	•	•	•	•	•
Laos		•		•		•	
Malaysia	•	•	•	•	•	•	•
Philippines	•	•	•	•	•	•	•
Singapore	•	•	•	•	•	•	•
Thailand	•	•	•	•	•	•	•
Vietnam		•					
SOUTH PACIFIC							
Australia	•	•	•	•	•	•	•
Cook Islands							•
Fiji	•			•	•		•
French Polynesia		•	•	•	•	•	•
Micronesia			•	•		•	•
Kiribati	•		•	•			•
Nauru	•		•				•
Niue			•				•
New Zealand	•	•		•		•	
Papua New Guinea	•		•	•	•	•	•
Marshall Islands	•		•	•		•	•
Western Samoa	•		•	•		•	•
Solomon Islands	•		•	•	•	•	•
Tonga	•		•	•	•	•	•
Tuvalu	•			•			•
Vanuatu	•		•	•	•	•	•

Looking to the Future

The Asia-Pacific region is now more at peace than it has been at any time in this century. Rapid economic growth has made the region increasingly important to the United States and the world economy. The complexities of the emerging division of power in the region have generated renewed interest in regional security. In the political realm, leadership and regime transitions are occurring across the region as a result of generational changes, democratization, and post-Cold War realignments in domestic political coalitions. The dissolution of the Soviet Union has led to renewed attention to traditional and potential rivalries among the major powers of the Asia-Pacific region. Many states of the region are now capable of increasing their military might.

In this context, the United States is uniquely positioned to be a constructive and enduring force for stability in the region. As the only Asia-Pacific power with truly global capabilities, the United States is able to bring together multilateral coalitions, as it did during the Gulf War. Moreover, as a powerful state with no territorial ambitions, the United States can maintain a presence in the region that is reassuring rather than threatening. Our interest is in the peaceful resolution of territorial and other disputes. Our ability to protect the vital sea lines in the Pacific and Indian Oceans enhances regional prosperity. United States security commitments to Japan make a major contribution to an enhanced sense of security in that country and throughout the region; United States and Korean forces deter aggression on the Peninsula; and the United States' policy of principled engagement toward China offers hope for creating constructive long-term relations that contribute positively to the international community.

Economic development, the technological and telecommunications revolutions, the spread of democracy and a growing awareness of the need for regional action on transnational issues have begun to provide a sense that the states in the region share common interests. Economics has been the driving force behind this emerging sense of community. Economic growth has engendered economic integration and interdependence, and intra-regional trade in Asia has flourished. New economic linkages have appeared, including those among the People's Republic of China, Taiwan, and Hong Kong. In this and other subregions, trade and investment are creating common economic interests across previously hostile political boundaries.

Economic growth and improved education have also led to the emergence of new middle classes and the establishment of democratic institutions in South Korea, Taiwan, Malaysia and Thailand. Together with the progress of democracy in the Philippines, Cambodia and Mongolia, this spread of democratic values will provide a stable basis for internal political transitions and legal systems that honor commitments even when governments change.

At the same time, there is a danger from potentially destabilizing political transitions throughout the region. Leadership and generational transitions could intersect in unpredictable ways with the dynamic security and economic trends in the region.

In addition, the danger of proliferation of weapons of mass destruction, emerging nationalism amidst long-standing ethnic and national rivalries, and unresolved territorial disputes could combine to create a political landscape of potential instability and conflict. America's engagement in regional security must take these dangers into account.

New economic wealth has deeply influenced Asian efforts to achieve self-reliance, self-confidence and assertiveness. At times this is reflected by increased emphasis on Asian values, sometimes pitting Asian leaders against Western ones on international issues. Yet this new assertiveness is accompanied by concern that the United States is pulling back from its commitment to Asia's security. This peculiar paradigm underlines the continued importance the region's leaders attach to the United States security presence.

As the President's National Security Strategy states, "now more than ever, security, open markets and democracy go hand in hand in this dynamic region." We are determined to combat the proliferation of weapons of mass destruction on the Korean peninsula. We have instituted new regional dialogues on the full range of common security challenges. Our goal is to integrate, not isolate the region's powers and to find solutions, short of conflict, to the area's continuing security challenges. We are seeking to develop the principal multilateral forum, APEC, to promote free trade, investment and prosperity in the Asia-Pacific region. The final element of our policy in building a new Pacific Community is to support the wave of democratic reform sweeping the region. The new democratic states of Asia will have our strong support as they move forward to consolidate and expand democratic reforms.

President Clinton has accorded a great deal of attention to the Asia-Pacific region in the first half of his term. This includes his summit visits to Japan, Korea, the Philippines, and Indonesia; his sponsorship of the APEC leaders meeting in Seattle; and his attendance at the Second APEC Leaders Meeting in Indonesia in November, 1994. He has also held numerous high-level meetings with Asian leaders in Washington and other international capitals.

The Clinton Administration is fully aware of the need for a strong continued forward United States military presence in the Asia-Pacific region to protect vital American interests there. As this report has stated, reductions resulting from the end of the Cold War have been accomplished; no further changes in warfighting capability are currently planned; the United States will maintain a force structure requiring approximately 100,000 personnel in Asia. The United States will also pursue modernization initiatives to improve the capability, flexibility and lethality of all our forces, including those in the region, and ensure that our forces will be able to deploy more quickly in a crisis.

There can be no doubt that the United States will remain a Pacific power in the Twenty-first Century.

CHINESE NUCLEAR WEAPONS AND ARMS CONTROL POLICIES: IMPLICATIONS AND OPTIONS FOR THE UNITED STATES

SUMMARY

Since the mid-1950s, China has made strong efforts within its limited economic and technical capabilities to develop a modest nuclear force and related delivery systems in order to:

- help deter superpower or regional aggression and intimidation;
- secure a strategic retaliatory capability in case of a nuclear war; and
- demonstrate China's international power and reinforce Chinese national pride.

Beijing relies for nuclear weapons delivery mainly on its mobile ground-based and sea-based missiles (about 100 missiles). Chinese nuclear arms control policies are designed to foster a positive international image and to encourage U.S., Russian and other arms control measures helpful to Chinese security, without substantially limiting China's ability to improve its comparatively poor strategic position vis-a-vis Washington and Moscow.

China's continued nuclear weapons development and nuclear testing complicate U.S. efforts to seek deep cuts in nuclear weapons by the U.S., Russia and other nuclear powers, to establish a comprehensive ban on nuclear weapons testing, and to insure international support for continuation of the Nuclear Nonproliferation Treaty. China's position also poses a serious challenge to U. S. efforts to establish advanced theater missile defenses in the United States and abroad; prompts India, and in turn Pakistan, to develop nuclear weapons capability; and weakens U.S.-backed efforts to curb the international production and transfer of fissile material.

To win greater Chinese cooperation, the United States can employ possible positive incentives involving U.S. efforts to accommodate Chinese interests in seeking broader American nuclear arms control and security concerns, or involving U.S. incentives in other areas (e.g. trade relations, technology transfers) that would elicit greater Chinese cooperation with U.S. nuclear security goals. On the other hand, the U.S. has the option to work unilaterally or with others to pressure China to bring its policies more in line with U.S. interests. The United States could link Chinese behavior in the nuclear area to U.S. trade sanctions, limits on U.S. technology transfers, or U.S. backed multilateral efforts to criticize China for its nuclear testing policy.

Chinese Nuclear Weapons and Arms Control Policies: Implications and Options for the United States, by Robert G. Sutter. Washington, Congressional Research Service, 1994. 22 p. (CRS Report no. 94-422 S, March 25, 1994)

CONTENTS

INTRODUCTION 1

CHINA'S DEVELOPMENT OF NUCLEAR WEAPONS 3
  Policy Evolution and Goals 4
  China's Objectives 5
  Current Force Levels 7
    Bombers 7
    Ballistic Missiles 7
      Medium-Range Ballistic Missiles (MRBMS) 7
      Intermediate-Range Ballistic Missiles (IRBMs) 8
      Intercontinental Ballistic Missiles (ICBMs) 12
      Submarine-Launched Ballistic Missiles (SLBMs) 13
      Type "M" Missile 13
    Prospects 13

CHINESE ARMS CONTROL POLICIES 15
  Policy Evolution and Goals 15
  Current Positions 17
    Strategic Offensive Forces 17
    Missile Defense 17
    Nuclear Testing and Proliferation 17
    No First Use of Nuclear Weapons 19
    Nuclear Free Zones--Transit by Nuclear Capable Warships 19

U.S. IMPLICATIONS AND OPTIONS 19
  Implications 19
  Options 21

Figures

1. Chinese Nuclear Forces 9

2. Estimated Range MRBM, IRBM, ICBM (Limited Range) 10

3. Estimated Range ICBM (Extended Range) 11

ACKNOWLEDGEMENT

This report was originally prepared at the request of the Senate Foreign Relations Committee and is released for general congressional use with the Committee's permission.

CHINESE NUCLEAR WEAPONS AND ARMS CONTROL POLICIES: IMPLICATIONS AND OPTIONS FOR THE UNITED STATES

INTRODUCTION

Nuclear arms control and non-proliferation efforts are at the top of U.S. foreign policy priorities during the Clinton Administration. U.S. officials receive strong support from the Congress, media, and the U.S. public in their efforts to reduce nuclear weapons and curb their development, testing, and proliferation. Strong support also follows Clinton Administration efforts to curb proliferation of advanced missile systems used to deliver nuclear, chemical and biological weapons.[1]

With its relatively small nuclear arsenal (an estimated 200-300 weapons) compared to the United States and the former Soviet Union, and its generally minor role in past international arms control negotiations, China attracted limited attention among U.S. nuclear arms control policy makers until recently. Primary U.S. attention fell on East-West arms control measures where China's role was seen as secondary.

More recently, however, China's importance has grown because its policies and practices appear to be at odds with several U.S. and international arms control goals, namely:

- agreed-upon deep reductions in U.S. and Russian nuclear weapons come at a time of continued Chinese improvement of nuclear weapons and missile delivery systems;[2]
- U.S. and Russian efforts, backed strongly by a wide range of international opinion, to halt nuclear tests contrast with China's continued nuclear testing;

---

[1] See among others, "Fact Sheet: Non-Proliferation and Export Control Policy," *U.S. State Dept. Dispatch*, October 4, 1993, p. 676-677. Robert Toth, "In Search of a Foreign Policy," *Foreign Service Journal*, January 1994, p. 31-35. Joint Chiefs, see "Proliferation As Top Threat," *Defense Daily*, January 27, 1994, p. 133.

[2] U.S. and Russian proposed cuts under START II and other accords would reduce arsenals to about 3,000 nuclear weapons each by the early 2000s. The size of the U.S. and Russian arsenals today are around 10,000 nuclear warheads each. Thus, after deep reductions, Moscow and Washington each would have nuclear arsenals 10 times the size of China's current arsenal.

-- U.S. backed restrictions on ballistic missile sales abroad appear at odds with China's sale of sophisticated missiles and/or missile technology abroad and development of new sophisticated systems for export;

-- U.S. efforts to halt international production of fissile materials come at a time when China retains a large capacity to produce fissile material and sells reactors and nuclear technology to states suspected as likely to use such equipment/technology to produce fissile material.

China's growing importance is also seen related to growing Chinese economic strength and recent widely held U.S. assessments that China is likely to emerge as an "assertive world power" by the early 21st century.[3]

On the other hand, there is plenty of evidence that Chinese officials will continue to give primary emphasis to economic development over military power, and that Beijing is determined to avoid major conflict with international actors like the United States that are important for Chinese economic modernization. In this vein, Beijing has responded to U.S. and other foreign initiatives by agreeing to join the Non-Proliferation Treaty (NPT) and to abide by the Missile Technology Control Regime (MTCR). It has also indicated that China might join a comprehensive nuclear test ban (CTB) by 1996. At least for now, Beijing remains opposed to curbing its nuclear testing, continues steady modernization of its small arsenal of weapons and delivery systems, and opposes cuts in its arsenal while the United States and Russia maintain over 20 times the number of weapons that China does.[4]

This report is designed to inform Members and staff who are interested in China's more prominent role in U.S. nuclear weapons and arms control policy, and to assist them in efforts to formulate an appropriate policy toward China conducive to nuclear arms control and U.S. Asian and international security concerns. The report provides a brief overview of the status and prospects of China's nuclear weapons and nuclear arms control policies. It assesses what they mean for current U.S. policy priorities and reviews possible U.S. policy options.[5]

---

[3] Many analysts are impressed by the size and rapid growth of China's economy. They judge Beijing will inevitably use its new economic strength to assert greater influence in Asian and world affairs. Others, noted below, disagree, seeing strict limits on possible Chinese expansionist ambitions. See, Sutter, Robert, and Kan, Shirley, *China As A Security Concern in Asia: Perceptions, Assessment and U.S. Options*, CRS Report 94-32S, January 5, 1994, 27 p.

[4] For background on China's position, see Daoyu, Li, "Foreign Policy and Arms Control: The View From China," *Arms Control Today*, December 1993, p. 9-11.

CHINA'S DEVELOPMENT OF NUCLEAR WEAPONS

Since the mid-1950s, China has made strong efforts within its limited economic and technical capabilities to develop a modest nuclear force in order to:

- help deter superpower or possibly other aggression and intimidation;
- secure a strategic retaliatory capability in case of a nuclear war involving China;
- demonstrate China's international power and reinforce Chinese national pride.[6]

Strenuous Chinese efforts over the past 40 years have built a modest nuclear force consisting of a score of ICBMs and around 100 intermediate-range ballistic missiles (China presumably has more missiles than missile launchers); aging bombers, and submarine-launched ballistic missiles. Aided initially by the Soviet Union, China has developed nuclear forces largely on its own, since Soviet support was withdrawn coincident with the emergence of the Sino-Soviet split in the late 1950s.

Chinese leaders have given the nuclear weapons program a consistently high priority and have generally managed to insulate it from the uncertainties of the sometimes sharp political changes in China since the late 1950s. Reflecting the realities of China's limited economic and technical resources and the strategic environment in Asia heavily influenced by the United States and the Soviet Union/Russia, China has worked to deploy a small but varied force that has a good chance to survive a superpower attack, to penetrate existing enemy defenses, and to hit large targets of importance to a potential aggressor.

---

[5] Published sources for this report are cited in footnotes. The report also benefitted from interviews with and/or review by 20 U.S. Government and other specialists. Some preferred to remain anonymous, but those who can be identified include: John Collins, Zachary Davis, Kerry Dumbaugh, Banning Garrett, Bonnie Glaser, Paul Godwin, Steven Hildreth, Harlan Jencks, Chong-pin Lin, Robert Shuey, and James Wootten.

[6] For background on Chinese nuclear weapons development, see Fieldhouse, Richard, *Chinese Nuclear Weapons: A Current and Historical Overview*, National Resources Defense Council, March 1991, 77 p.; Godwin, Paul and Schulz, John, "Arming The Dragon for the 21st Century: China's Defense Modernization Program," *Arms Control Today*, December 1993; Lin, Chong-pin, *China's Nuclear Weapons Strategy*, Lexington, 1988; Lewis, John W. et. al, *China Builds the Bomb*, Stanford, U. Press, 1988. For CRS coverage see, Sutter, Robert, *China's Nuclear Weapons and Arms Control Policies: Implications for the United States*, CRS Report 88-374F, May 16, 1988.

Policy Evolution[7]

China's strategic nuclear weapons program dates back at least to the mid 1950s. At that time, Chinese leaders incorporated nuclear weapons development into the second five-year economic plan and gave it a consistently high priority. With extensive aid from the Soviet Union in the 1950s, as well as support from indigenous talent including repatriated Chinese scientists trained earlier in the United States, China was able to establish a workable basis for future nuclear weapons development.

Development continued although the withdrawal of all Soviet technical assistance at the time of the opening of the Sino-Soviet rift in the late 1950s represented a serious blow to what had been a heavily imported nuclear technology program. In the early 1960s, China's uranium enrichment capacity was assured when the gaseous diffusion separation plant in Lanzhou, northwest China, began operation. Adequate uranium supplies were not a problem, because China has extensive if unquantified uranium deposits. Shortly thereafter, weapons-grade nuclear production capability was achieved with the completion of two plutonium production reactors near Baotou, Inner Mongolia.

With these assets and continued financial and policy support from the central government, Beijing's nuclear weapons program continued to progress. In 1964, China detonated its first nuclear fission (atomic) device, and, in 1967, successfully tested a fusion (thermonuclear/hydrogen) bomb. In 1966, China announced that it had fired its first nuclear capable ballistic missile. From the mid-1960s to the present, testing and development of nuclear weapons and delivery systems have continued, with an average of one or two major tests a year.

It is noteworthy that this progress has been made despite sharp shifts in Chinese policy and disruption in Chinese political stability.

Some of the shifts and disruptions in Chinese policy included:

-- the widespread hardship, starvation and poor economic conditions following the collapse of the so-called Great Leap Forward in 1959-60.

-- the breakdown of political order in Beijing and other Chinese localities during the height of the Red Guard movement in China in 1966-68;

-- the purge of many senior Chinese leaders at the time of the Red Guard movement, after the reported attempt at a coup d'etat by Defense Minister Lin Biao in 1971, and after the death of Mao Zedong in 1976;

---

[7] See, among others, Sutter, Robert, *China's Nuclear Weapons and Arms Control Policies: Implications for the United States*, op. cit; *China As A Security Concern in Asia*, op. cit.; and *China in World Affairs -- Background, Prospects and Implications for the U.S.*, CRS Report 92-747S, October 1, 1992, 28 p.

-- the orientation of Chinese foreign and defense policy in the 1970s away from past emphasis on the United States as the primary threat to Chinese security, in favor of an approach stressing the Soviet Union as the primary strategic threat and viewing the United States as a potentially useful counterweight to Soviet power;

-- a new emphasis on Chinese "independence" in foreign affairs in the early 1980s. This reflected a marked decline in the perceived threat to China posed by the Soviet Union and a reduced Chinese incentive to develop close strategic ties with the United States against the U.S.S.R; and

-- China's emergence in the 1990s as an increasingly important actor in Asian and world affairs with wide-ranging economic and other ties with key international powers in the post Cold War period. Beijing's concern about imminent nuclear war declined further, though Chinese strategists remained vigilant against regional or global trends seen curbing China's growing power and influence.

It is also worth recalling that throughout this period, China was not considered to have engaged in "nuclear blackmail"--that is, using nuclear weapons to threaten and intimidate non-nuclear neighbors. The fact that China possessed nuclear weapons, and threatened to use or actually used conventional military force against some Asian neighbors (e.g., India, Taiwan, Vietnam), has been seen by some in these countries as Chinese intimidation.

China's Objectives

The steady development of Chinese nuclear weapons over the course of four decades has reinforced analysts in their belief that China is unlikely in the near future to change the goals of its nuclear program. Briefly put these goals have been:

- **To Help Deter Superpower or Possibly Other Aggression and Intimidation**

Until the late 1960s, China's efforts were directed at the United States. Subsequently, China focused on the Soviet threat and viewed the United States as providing an important and useful counterweight to Soviet power. (There remained a question as to whether China's long range ICBMs were targeted on the U.S.) China's objective to deter Soviet power and intimidation at least partly was achieved as the Chinese deployed a number of missiles capable of delivering nuclear warheads against Soviet targets. The Chinese used mobility, dispersion, concealment, and camouflage of their land-based missiles, and a Chinese submarine launched ballistic missile (SLBM) capability to attempt to convince the Soviets that they could not destroy the entire Chinese missile force, even with a surprise attack. Meanwhile, Chinese forces could also hit U.S. targets in Asia, and a few Chinese missiles could reach the continental United States.

With the collapse of the Soviet Union and end of the Cold War, China has moderated its stance toward Moscow while sometimes voicing concern over possible increased U.S. pressure against China on differences in U.S.-China relations. Beijing planners also take account of potential instability around China's periphery involving nuclear-capable states (e.g., Russia, Kazakhstan, and in the future, possibly, India, Pakistan and North Korea), and technologically advanced states that could become nuclear capable relatively quickly (i.e., Japan, South Korea, Taiwan).[8]

- **To Secure a Strategic Retaliatory Capability**

This objective--which underpins the first--says that China seeks a reliable and serviceable strategic retaliatory capability in case a nuclear war breaks out.[9] It appears to have been at least partly achieved. The effectiveness of China's strategic retaliation remains constrained by Beijing's limited force size, and by the fact that some Chinese missiles might be destroyed by a preemptive strike, by Russia, for example, due to the slow reaction time of most Chinese missiles,[10] the short flight time of Russian missiles to targets in China, and China's limited resources for obtaining adequate information on possible Russian attack. Some Chinese missiles nonetheless could likely survive a Russian attack and strike back.

- **To Demonstrate China's International Importance and Reinforce Chinese National Pride**

China has also sought to develop nuclear weapons in order to increase its influence in Asian and world affairs. Beijing went far toward demonstrating its global strategic importance in 1980 when it became only the third world power to test successfully a truly intercontinental land-based ballistic missile. The deployment of a sea-launched missile and continued development of short and intermediate-range, solid-fueled, land-based mobile systems have underlined

---

[8] See, among others, assessments, by Glaser, Bonnie, in *Asian Survey*, March 1993 and Wilhelm, Al in *Arms Control Today*, December 1993; Mann, Jim, "China Upgrading Nuclear Arms, Experts Say," *Los Angeles Times*, November 9, 1993; and Tyler, Patrick, "Chinese Military Sees Us As A Foe," *New York Times*, November 16, 1993.

[9] Although Chinese leaders say the current likelihood of such a war breaking out is low, throughout the late 1960s and the 1970s, they repeatedly stressed the need for the Chinese people to prepare for nuclear attack, geared their military and civil defense preparations to deal with such an attack, and warned likely adversaries (i.e., the U.S.S.R.) of Chinese determination to strike back in kind.

[10] Most Chinese missiles use liquid fuel that cannot remain in the missile for a prolonged period (e.g., several days). Thus, at the time of an alert, Chinese missiles may be fueled and prepared for firing, but they cannot remain in that state for very long before they must be fired or drained of fuel. China's few ICBMs have storable liquid fuel. China has deployed solid-fueled SLBMs, and solid-fueled intermediate range, land-based missiles.

China's position as a key player in the international security calculations of Russia, the United States, and others. The fact that China has been willing to sell its intermediate range ballistic missiles and new solid-fueled, land-based missiles or related technology to third countries has reinforced this trend. Chinese accomplishments in nuclear weapons development seem to appeal to Chinese patriotism and redound to the political benefit of leaders associated with the military advances.[11]

Current Force Levels

Estimates of the size and organization of Chinese nuclear forces vary, but available data and interviews with U.S. specialists suggest a Chinese arsenal having around 200-300 nuclear weapons, including fission weapons ranging from 20-40 kilotons in yield, and thermonuclear weapons ranging from 1 to 5 megatons in yield. Delivery vehicles include land-based missiles, conventional bombers, and submarine-based ballistic missiles deployed on two nuclear powered submarines. Intermediate and short-range, solid-fueled, nuclear-capable missiles also are reported to be operational. The Chinese are reportedly continuing to develop their already significant stockpile of nuclear weapons material and types of warheads. (See chart.)

Bombers

Some of China's 100 B-6 (modified T-16 "Badger") medium-range bombers, and perhaps some of its tactical aircraft, could be used to deliver nuclear weapons. However, it is often claimed that these obsolescent aircraft would have great difficulty penetrating sophisticated air defenses. At least some observers speculate that it is improbable that China's air force has a nuclear delivery mission against either Russia or U.S. forces in Asia.

Ballistic Missiles[12]

The Chinese have focused instead on developing and improving their missile delivery systems. This effort has resulted in several distinct land-based surface-to-surface systems, and the start of a sea-based system.

Medium-Range Ballistic Missiles (MRBMS) (600-1,500 miles)

For many years China deployed a number (around 50) CSS-1/DF-2 medium range ballistic missiles with a range of 1000 Km/650 miles. Those missiles have been taken out of service in recent years. Their exact disposition is not known, although media reports from China have shown some of them being used in training exercises.

---

[11] Chong-pin Lin is associated with this view. See his *China's Nuclear Weapons Strategy*, op. cit.

[12] An authoritative overview and assessment of Chinese missile forces is seen in Lewis, John and Hua Di, "Chinese Ballistic Missile Programs," *International Security*, Fall 1992, p. 5-40.

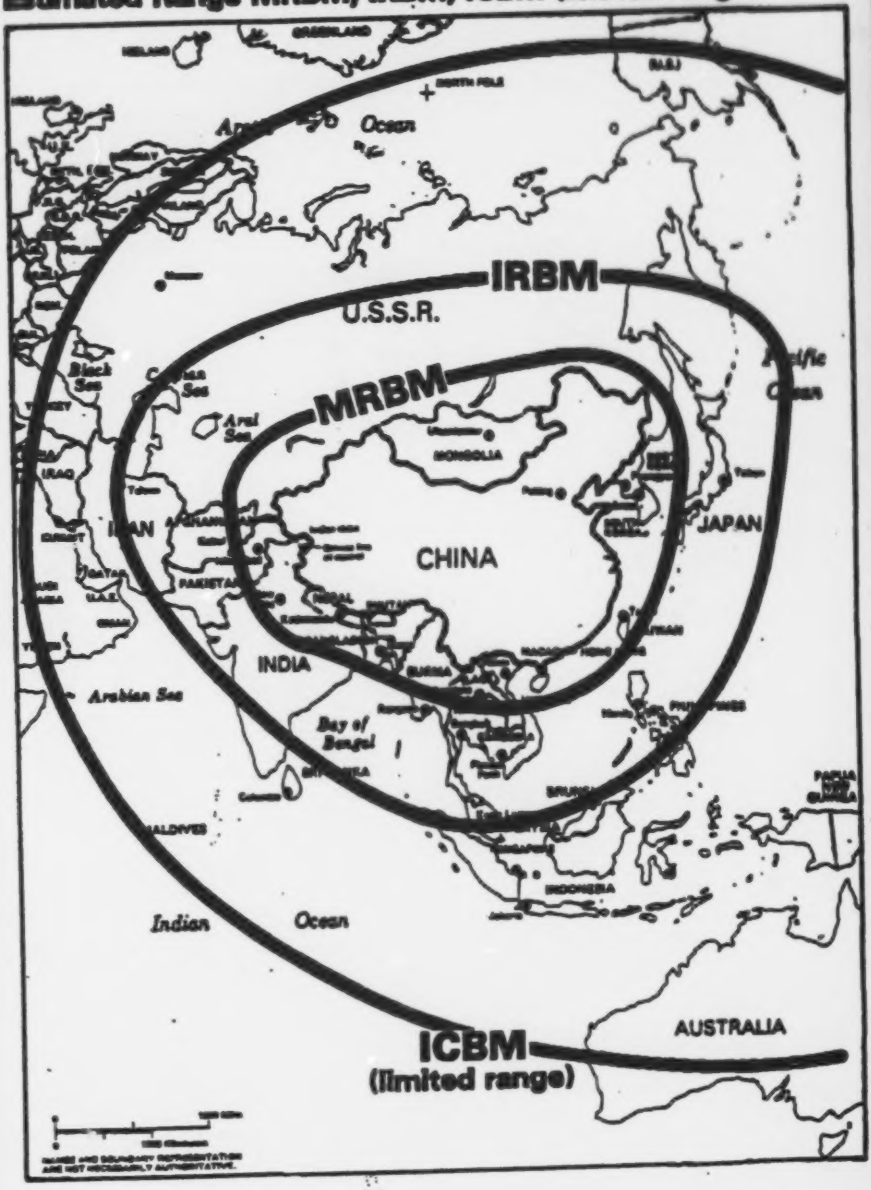
Intermediate-Range Ballistic Missiles (IRBMs) (1,500-3,000 miles)

China's CSS-2, (DF-3), operational since 1972, are small in number (estimates range around 40-50). They are powered by a Chinese-designed, single-stage, liquid system, have a range of 12,650 Km/1650 miles and carry a thermonuclear warhead. Deployment of this system provides the PRC with a capacity to hit static targets such as population and industrial centers in central and eastern Russia, for example, as well as similarly close targets elsewhere in East and South Asia. China exported these missiles, but not nuclear warheads, to Saudi Arabia in the late 1980s.

CHINESE NUCLEAR FORCES

Designation U.S.(Chinese)	Number Operational	Propulsion	Range	Other
CSS-2 (DF-3)	40-50	1 stage-storable liquid	over 2,600 km/ 1,650 miles	1-3 MT warhead
CSS-3 (DF-4)	less than 20	2 stage-storable liquid	more than 4,750 km/3,000 miles	1-3 MT warhead
CSS-4 (DF-5)	about 10	2 stage-storable liquid	13,000 km/8000 miles or more	4-5 MT warhead
B 6 (H-6) Bomber (PRC copy of Soviet TU-16 Badger)	30	2 turbojets	4,500 km/2,790 miles	
CSS-N-3 (JL-1)	24	2 stage-solid	1,800 km/1,100 miles	Two Xia-class SSBN operational. Missiles and one sub may not be fully operations.
CSS-N-3 DF-21)	30	2 stage-solid	1,800 km/1,100 miles	land based version of CSS-N-3
None (M-9/DF-15)		1 stage-solid	600 km/370 miles	
None (M-11/DF-11)		2 stage-solid	300 km/186 miles	

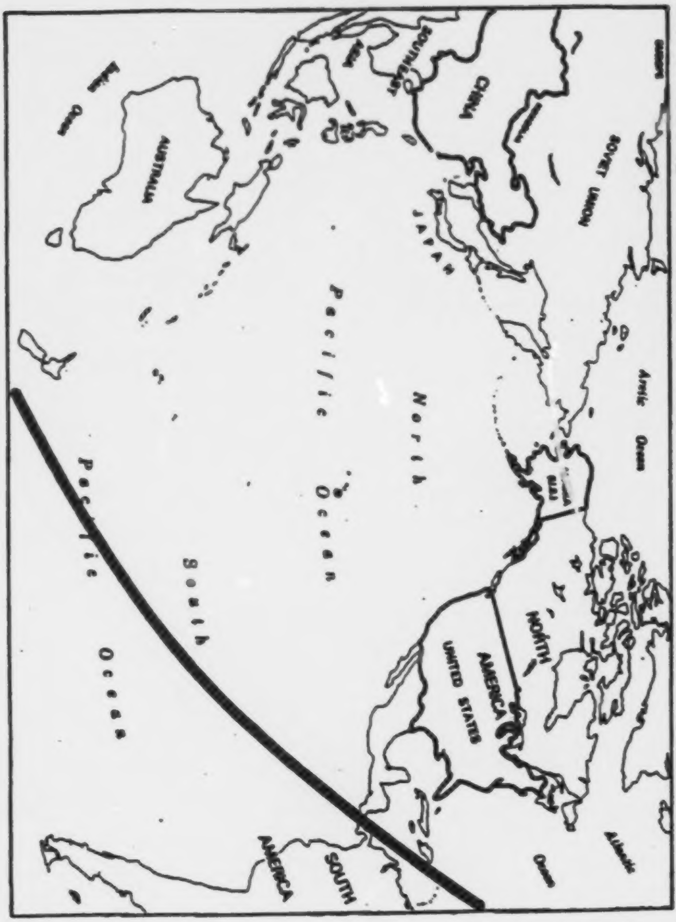
Estimated Range MRBM, IRBM, ICBM (limited range)


GREENLAND
ICELAND
NORTH POLE
Arctic Ocean
IRBM
U.S.S.R.
MRBM
Black Sea
Caspian Sea
Aral Sea
MONGOLIA
CHINA
JAPAN
Pacific Ocean
TURKEY
IRAQ
IRAN
KUWAIT
QATAR
U.A.E.
OMAN
YEMEN
AFGHANISTAN
PAKISTAN
NEPAL
BHUTAN
INDIA
BURMA
MACAO
HONG KONG
TAIWAN
PHILIPPINES
Arabian Sea
Bay of Bengal
SRI LANKA
MALDIVES
BRUNEI
SINGAPORE
INDONESIA
PAPUA NEW GUINEA
Indian Ocean
AUSTRALIA
ICBM
(limited range)
NAMES AND BOUNDARY REPRESENTATION ARE NOT NECESSARILY AUTHORITATIVE.

BEST COPY AVAILABLE

CRS-11

Estimated Range ICBM (extended range)


SOVIET UNION
CHINA
JAPAN
SOUTHEAST ASIA
AUSTRALIA
Indian Ocean
Arctic Ocean
North Pacific Ocean
South Pacific Ocean
NORTH AMERICA
UNITED STATES
Atlantic Ocean
SOUTH AMERICA

BEST COPY AVAILABLE

China's DF-21 is a land-based version of the CSS-N-3 (JL-1) deployed on China's ballistic submarines. Estimates of those deployed range up to between 30 and 40. It is road mobile, was first successfully launched in 1985, and has a range of 1,800 km/1100 miles.

Intercontinental Ballistic Missiles (ICBMs) (3,000 + miles)

In the early 1970s, China began testing a limited range intercontinental ballistic missile (CSS-3/DF-4) with a range of over 4,750 kilometers/3,000 miles. Less than 20 of these have been reported deployed. Employing a two-stage, liquid-fueled rocket, each missile carries a warhead estimated to have a yield of up to 3 megatons. It can threaten targets in European Russia and all of Asia.

China's largest multistage ICBM was tested, with a substantial amount of publicity, with two firings in May 1980, from central China to the vicinity of the Fiji Islands, about 12,000 kilometers (7,450 miles) away. This is the only Chinese missile system capable of reaching targets throughout the United States. It uses liquid fuel and carries a warhead of 4-5 megatons in yield. Estimates say China has about ten of these missiles ready for use.

Chinese land-based ballistic missiles forces have been thought to be targeted mainly on Russian territory. Available data have indicated that at least the bulk of the Chinese missiles have been deployed in the north and northwestern parts of China where Beijing's limited-range missiles could reach Russian targets.

Beginning in the late 1960s, Chinese missiles were deployed at a very gradual rate--according to some specialists this was done to avoid provoking a Soviet "preventive strike."[13] The limited range missiles have been widely dispersed, often deployed in silos and manmade caves in mountainous terrain, and have been so carefully camouflaged that satellite reconnaissance reportedly failed to disclose their presence until several years after they were initially deployed. (There may be doubt in the minds of Russian and U.S. planners that all Chinese missile sites have been discovered.)

Meanwhile, photographs and news stories released by Beijing indicated that some Chinese missiles are mobile by road and rail. As a result, an adversary might not be certain that it could locate and preemptively destroy all Chinese nuclear weapons sites during a conflict with Chinese forces. On the other hand, it is widely held that Chinese reaction times are likely to be slow.[14]

---

[13] See, for example: Jencks, Harlan. From Muskets to Missiles. Boulder, Colo., Westview Press, 1983. p. 159.

[14] Because of the time involved in preparing many Chinese missiles for firing, Chinese forces are seen as having difficulty in launching much of an immediate retaliatory attack upon receiving warning of a surprise attack, say from the Russia. They could have difficulty in responding quickly after Russian missiles hit Chinese targets, although some Chinese missiles could survive and strike back. Optimal preparation and dispersal of Chinese missile forces would appear

Submarine-Launched Ballistic Missiles (SLBMs)

China's successful development of an SLBM further complicates the strategic plans of potential adversaries and enhances Chinese nuclear deterrence. Long interested in developing a ballistic missile submarine, China managed to overcome the ill effects of the withdrawal of Soviet technical assistance and in 1964 successfully assembled a single, diesel electric-powered, GOLF-class submarine from parts supplied earlier by the Soviet Union. The submarine has three missile-launching tubes, is believed to be used as a testing platform, and presumably was the submarine that fired China's first SLBM in October 1982.

China subsequently built two Xia-class nuclear powered submarine with 12 ballistic missile tubes. These submarines--along with possibly others later in the same class--can serve as a sea-based leg in a Chinese nuclear force. It is uncertain if the second Xia-class submarine can be considered fully operational.

It is said that China's SLBM uses a solid-fuel, two-stage rocket and has a range in excess of 1,800 Km/1,100 miles. It is uncertain if the SLBMs can yet be considered fully operational. The technology used for this missile-especially the use of a solid-fuel rocket--proved applicable to land-based missiles, the DF-21, noted above.

Type "M" Missiles--Short Range Ballistic Missiles (less than 600 miles)

It was disclosed, in November 1986, that Beijing was developing a short range (600km/370 miles), single-stage, solid-fueled mobile missile capable of carrying a nuclear warhead. This missile, designated the M-9, passed its flight test in 1988 and was said to be available for export in 1989 (presumably for use with a conventional warhead). Its domestic designation is DF-15. The M-11 (DF-11) meanwhile, a two-stage solid fuel missile with a range of 300km/186 miles was developed and successfully tested in 1990.

These "M" missiles would have apparent advantages over existing Chinese land-based systems as far as mobility and preparation time are concerned. Their short range would appear to limit their strategic utility against superpower adversaries. However, a nuclear-armed version of this missile could provide China with its first practical counter to Russia's much more numerous tactical nuclear weapons deployed opposite China.

Prospects

Economics, technology, and the international security environment will influence China's future development of nuclear weapons. Because they have

---

to require a period of several days warning, such as would occur in the event of a rise in acute tensions with the Russia. Chinese leaders are well aware of these shortcomings in their forces and have presumably devised command and control procedures to allow for a Chinese counterattack even if a superpower were to strike first, and knock out normal communication while killing much of the Chinese high command.

been cheaper than massive and well-equipped air, land, and sea forces, nuclear weapons have received a high priority in China over the decades. Only a few of them have been deployed, however, because production and deployment of a large force of often obsolescent weapons would be of marginal military value and would absorb funds better spent on developing improved weapons and their support systems, or other priorities. Indeed, such large-scale deployment would probably alarm China's neighbors and others. This could lead to international reactions (e.g., Japanese rearmament) that would upset what Beijing has seen as a generally more stable and advantageous international security situation in Asia that is supportive of China's primary goal of economic modernization.[15]

China will probably continue with the painstaking, incremental approach that has marked its nuclear weapons program over the past four decades. In particular, Beijing has been working for several years on improved and often longer range solid-fueled missiles, that are expected to be operational in the 1990s. They are the DF 31/JL-2, range 8,000km/5,000 miles; the DF-25, range 1,700 km/1,050 miles; and the DF-41, range 12,000km/7,440 miles.[16] China will presumably strive to maintain a deterrent to U.S. and Russian missile forces, but is unlikely to expand greatly the number of missiles or bombers to deliver nuclear weapons, absent a big shift in its perception of the threat. Chinese leaders are expected to replace gradually some of the older liquid-fueled missiles with more mobile, accurate and easily handled solid-fueled weapons. China continues to devote a large portion of its scarce highly trained manpower and its government funding to nuclear weapons development.

Beijing may have an interest in developing multiple reentry vehicles (MRVs) or multiple independently targeted reentry vehicles (MIRVs) for its larger missiles. In 1982, one Chinese missile successfully launched three separate space research satellites, thereby suggesting a Chinese MRV capability.[17] China is also thought to be interested in modernizing other capacities related to its nuclear forces such as early warning radar,[18] intelligence and reconnaissance satellites, secure command and control equipment, better computers and other instrumentation useful in production and operation of nuclear weapons.

Under most circumstances, it appears unlikely Beijing will aspire to much more than the Chinese equivalent of the French *force de frappe*. As National War College scholar Paul Godwin has noted, Chinese doctrine does not speak in terms of "sufficiency." The notion of "anti-nuclear blackmail" better defines China's experience. It ensures that in a crisis China will not face unanswerable nuclear threats in pursuit of its policy objectives. As a practical matter, however, this approach amounts to much the same thing as the French doctrine. To this end, building several more SSBNs or developing mobile ICBMs that make a portion of the strategic force relatively invulnerable and able to hit Russian and U.S. cities are seen by the Chinese leaders as necessary.[19]

---

[15] For background see Sutter, Robert, *China In World Affairs*, CRS Report 92-747S, October 1, 1992, 28 p.

[16] See discussion in Lewis, John and Hua, Di, "China's Ballistic Missile Programs," op. cit.

[17] See discussion in The World of Armaments and Disarmament: SIPRI Yearbook 1986, Stockholm, SIPRI, 1987, p. 103, 112.

[18] A phased-array radar has been deployed to provide warning regarding possible Russian attack.

CHINESE ARMS CONTROL POLICIES

Policy Evolution and Goals

China's policy on nuclear arms control has gone through distinct phases over the past two decades.[20]

China's detonation of its first atomic bomb in 1964 followed strong criticism of "fraudulent" U.S.-Soviet arms control arrangements seen in the Limited Test Ban Agreement of 1963. Beijing portrayed that treaty as a thinly disguised superpower effort to preserve their nuclear supremacy while limiting China's and other countries' ability to develop nuclear weapons. Beijing similarly rejected the 1968 multilateral Non-Proliferation Treaty. China declared that it would not assist other countries in developing nuclear weapons, but defended the right of non-nuclear states to acquire such arms. At the same time, Beijing repeatedly declared that it would not be the first to use nuclear weapons and affirmed its interest in a total ban on and thorough elimination of nuclear weapons.

Reflecting the major adjustment in Chinese policy toward the Soviet Union and the United States in the late 1960s and early 1970s, Beijing focused its criticism involving arms control issues increasingly against the Soviet Union. Following the 1973-74 Watergate crisis and collapse of U.S.-backed governments in Indochina in 1975, China became concerned about U.S. resolve in the face of what it viewed as increasing Soviet military pressure. Chinese officials warned that Soviet arms control efforts were merely propaganda ploys to disguise expansion; and they sometimes charged that some in the West were making concessions in arms control negotiations with the Soviets in order to "appease" Moscow and to direct the thrust of Soviet military pressure eastward, toward China.

China's perception of the changed balance in U.S.-Soviet power in the 1980s prompted Chinese leaders to put aside past efforts to discredit U.S.-Soviet arms control in favor of a more differentiated approach. Beijing judged that some U.S.-Soviet arms control arrangements, notably the 1987 Intermediate

---

[19] See, *Arms Control Today*, December 1993, p. 7.

[20] For background, see sources noted in footnote 6. See also Sismanidis, Roxane, "China and The Post-Soviet Security Structure." Paper, Association for Asian Studies, Mid-Atlantic Region Annual Meeting, October 31, 1993.

Nuclear Force (INF) agreement, worked to China's strategic advantage. Other potential accords also appeared to stabilize and perhaps reduce the U.S.-Soviet arms rivalry in Asian and world affairs. Meanwhile, Beijing was vocal in calling for U.S.-Soviet limitations on military developments that were seen as seriously detrimental to China's nuclear deterrent--notably U.S. and Soviet efforts to develop systems to defend against ballistic missiles.

The post-Cold War environment of the 1990s has posed new challenges for Chinese arms control policies. For one thing, U.S.-and Russian-backed force reductions, nuclear test bans and other arms control initiatives have caused much of world opinion to view China's continued force development and nuclear testing in a negative light. At the same time, the United States, Russia and their allies and associates continue to work toward new breakthroughs in missile defense and other areas that could undercut China's nuclear strategy.[21] For the present, Beijing has opted to accommodate U.S.-backed international arms control pressures by joining the Nonproliferation Treaty, agreeing to abide by the missile export guidelines of the Missile Technology Control Regime, and indicating willingness to join a nuclear test ban in 1996. On the other hand, Beijing refuses to join the United States and Russia in cutting its nuclear force, continues an active nuclear testing and ballistic missile development program, and continues to export nuclear related equipment and ballistic missile technology to sensitive world troublespots.

Throughout each of these phases, China has maintained several clear objectives in its arms policies:

-- worked to strike a prominent posture as an independent actor in world affairs, and to strengthen China's image as a genuine advocate of peace and arms control;

-- encouraged arms control measures that would curb the capabilities of big power adversaries, without substantially limiting China's ability to improve its comparatively poor strategic position vis-a-vis the superpowers;

-- attempted to position itself well to protect Chinese interests in the event of possible future Chinese participation in arms control negotiations.

---

[21] China voiced strong opposition to U.S.-Soviet efforts in the 1980s to develop Strategic Defensive Systems and is thought to be concerned about on-going U.S. efforts to develop theater missile defense systems. For background, see *Theater Missile Defenses: Possible Chinese Reaction*, CRS Report 94-154S, February 3, 1994, 4 p.

Current Positions

Strategic Offensive Forces

Chinese leaders emphasized for many years that China would join in international efforts to control nuclear arms only after the United States and Soviet Union made drastic reductions, often defined as 50 percent cuts, in their nuclear arsenals. Accordingly, China commented favorably on the U.S.-Soviet Strategic Arms Reduction (START) negotiations leading toward a possible 50 percent cut in their strategic weapons.

Many observers judge that China did not expect the Reagan Administration and Gorbachev government to come close to such an accord. They see signs of Chinese ambivalence over a possible further sharp U.S.-Russian reduction. On the one hand, the reduction would lower the danger to the PRC posed by Russian and U.S. nuclear forces. On the other hand, such an accord could increase pressure on China to back up its longstanding promise and begin international negotiations aimed at reducing or restricting Chinese nuclear weapons. Because China may be unwilling to reduce its weapons significantly even after deep U.S.-Russian cuts, some observers see China stressing other conditions in order to delay entering talks on Chinese force reductions.[22]

Missile Defense

The Chinese leadership for several years has strongly opposed U.S. and Russian efforts to build strategic defenses or engage in what China calls an arms race in space. China's position is governed heavily by considerations of Chinese security. Development of such defenses could neutralize China's limited nuclear deterrent. For the same reasons, China is thought to oppose theater missile defenses now being proposed for the United States, Russia, Japan, South Korea, Israel, and some European countries. As currently envisioned, these systems would be able to defend against all Chinese missiles except a small number of Chinese long-range-missiles.[23]

Nuclear Testing and Proliferation

Chinese policy here is complicated by conflicting goals. On the one hand, Beijing wishes to avoid restrictions on its nuclear programs at a time when the superpowers enjoy such an overriding advantage in nuclear weapons. On the other hand, Beijing wants to maintain stability in Asia, curb superpower breakthroughs in nuclear weapons technology, and improve its image as a responsible actor in world affairs. This has resulted in sometimes ambivalent Chinese positions on issues of nuclear testing and proliferation.

---

[22] For a time in the 1980s, China emphasized 50 percent cuts in U.S. and Soviet arsenals. When it appeared that Washington and Moscow were prepared to make such cuts, China adjusted its stance in ways that allowed China to continue its nuclear weapons program without making any cuts of its own. Interviews, Washington, DC, January 1994.

[23] See CRS Report 94-154S cited in footnote 21.

Nuclear Testing: Beijing appears to have developed greater sensitivity to international criticism of its nuclear testing. In contrast to past practice, China generally does not extensively publicize its nuclear tests. In 1985, Beijing pledged that it would no longer conduct nuclear tests in the atmosphere. It had earlier said it would not conduct nuclear tests in outer space or the ocean.

Chinese officials had been strongly critical of the superpower-backed partial nuclear test ban treaty in the 1960s, but in recent years China has expressed a willingness to participate in talks on limiting or ending nuclear tests. In particular, China has joined in efforts set up under the 40-national Geneva Conference on Disarmament concerning prohibition of nuclear tests. In response to U.S. and Russian-backed efforts to halt nuclear testing in 1993, China agreed to talks with an objective of reaching a comprehensive test ban by 1996. Chinese diplomats acknowledged privately that it will be a difficult job to persuade Chinese weapons makers of the benefits of such a ban.[24]

Nonproliferation: China refused to accede to the Non-Proliferation Treaty (NPT) for over 20 years, but Chinese officials tried to assure concerned officials that China was not participating in proliferation. China resented what it saw as the bias of the NPT--an attempt by the superpowers to reduce the rights of other nations to defense measures, while placing no limits on U.S. and Russian nuclear arsenals. However, China repeatedly stated at the highest levels and in very specific terms, that it does not now and would not in the future assist or encourage nuclear proliferation. (These statements came in the wake of strong international criticism of China's alleged assistance to Pakistan's reported nuclear weapons program and its sale of nuclear material to other so-called "threshold" states.) China also joined the International Atomic Energy Agency (IAEA) in 1984.

Beijing's cooperation with U.S. and allied efforts to check North Korea's nascent nuclear weapons program has been praised by some U.S. officials and criticized by others. China is clearly playing an active part in negotiations on the issue, but Beijing's refusal to support sanctions against Pyongyang is seen by some to limit international options to press the North to stop its weapons program. In South Asia, Beijing has been less ambiguous. A 1993 initiative by Japan to induce China to join India and Pakistan in negotiations foundered on China's unwillingness to discuss conditions that might limit its nuclear program and capabilities in the region.

Meanwhile, China's adherence to the Missile Technology Control Regime (MTCR) has been a bone of contention with the United States. In return for lifting of U.S. sanctions governing U.S. satellite launches on Chinese rockets, Beijing in November 1991 reportedly told U.S. Secretary of State James Baker that it would not violate MTCR guidelines. On August 25, 1993, the State Department announced two-year trade and economic sanctions against the

---

[24] Interview, Washington, DC, February 1, 1994.

Chinese Ministries of Defense and Aerospace Industries, plus eight commercial companies, on the grounds that they had been involved in the transfer of M-11 missile components and technology to Pakistan in violation of China's commitments to MTCR. (The effect of those sanctions was reduced following Clinton Administration clarifications in early 1994 and adjustments by U.S. exporters to China.)[25]

Beijing denied the U.S. charge. Chinese officials reportedly insisted privately that the M-11 missile was specifically designed for export and to remain below MTCR guidelines, which, until June, restricted the transfer of missiles with a range of 300 or more kilometers and a payload of 500 kilograms. Washington has argued that the M-11 could reach the minimum range threshold if the load were lighter. In January 1993, MTCR members changed the guidelines to cover transfers of any missiles and related technology that were determined to be used to deliver weapons of mass destruction.[26]

No First Use of Nuclear Weapons

Ever since China's first atomic test in 1964, Beijing has repeatedly pledged that it will not be the first to use nuclear weapons and has urged the other nuclear powers to join in this policy. More recently, it has suggested that the United States and Russia adopt such a pledge before requiring China and other nuclear weapons states to begin talks on ending nuclear tests.

Nuclear Free Zones--Transit by Nuclear Capable Warships

In order to strengthen its image as an advocate of peace and arms control, Beijing has supported several proposed nuclear free zones and has signed protocols governing the Latin American and South Pacific nuclear free zones. In 1985, Chinese leaders also identified closely with New Zealand's position of refusing to allow visits by nuclear powered or nuclear weapons capable ships. This led to an impasse in negotiating a U.S. ship-visit to China because U.S. policy would not allow the United States to confirm or deny the presence of nuclear weapons aboard its ships. China subsequently adjusted its approach and visits to China by nuclear weapons capable ships of Great Britain and the United States took place without formal declaration by either Western power as to the presence of nuclear weapons aboard.

U.S. IMPLICATIONS AND OPTIONS

Implications

Chinese nuclear weapons development and related arms control policies pose some possibly serious complications for the Clinton Administration's arms control initiatives. They also have an impact on U.S. security and U.S. concern for peace and security in Asia. On the other hand, a balanced assessment requires noting some benefits to the United States that are seen by some observers coming from Chinese nuclear weapons development and related arms control policies. For example, current Chinese actions assure that Chinese nuclear weapons are better designed and safer to handle than they might otherwise be. They also preclude a possibly more expensive and potentially more destabilizing buildup of conventional military force China might undertake if it were no longer able to rely on its nuclear arsenal.[27]

---

[25] For background, see *Chinese Missile and Nuclear Proliferation: Issues for Congress*, CRS Issue Brief 92056.

[26] Discussed in *Arms Control Today*, December 1993, p. 8.

Regarding international arms control:

- The Clinton Administration favors deep cuts in nuclear weapons by the United States and Russia, presumably along with more modest b curbs and possible cuts by the other nuclear powers; China opposes new restraints on its nuclear programs and continues active nuclear weapons development;

- the Clinton Administration favors ending production of fissile material; China has a large capacity to produce such material and has sold Pakistan, Iran and others civilian nuclear reactors and technology that could support clandestine efforts to produce fissile material;

- the Clinton Administration favors a comprehensive nuclear test ban involving all nuclear powers; China opposes the ban now and continues to test-the only nuclear power to do so; Beijing has indicated willingness to join a CTB in 1996.

- the Clinton Administration wants to extend the NPT indefinitely in 1995. Mexico, Indonesia, Nigeria, and other non-nuclear powers are thought to be reluctant to agree unless the nuclear weapons countries take concrete actions to curb their weapons development; a CTB is seen as just such a concrete action, but China's opposition to a CTB now complicates the situation;

- the Clinton Administration is developing advanced theater missile defense for the United States and is considering possibly sharing the system with Russia, Japan, South Korea and others; such systems could be seen in Beijing as countering China's limited nuclear strike capability. Chinese countermeasures could include deploying more missiles, developing multiple warheads for Chinese missiles, using decoys and so-called penetration aids, or other measures; such improvements would presumably involve more Chinese nuclear weapons testing and development, in opposition to U.S. arms control efforts.

Regarding the impact of Chinese nuclear weapons and arms control policies on U.S. security and Asian regional security concerns:

---

[27] Interviews, Washington, DC, February-March 1994.

- only a few Chinese ICBMs and SLBMs could conceivably strike U.S. territory, although many could strike U.S. forces deployed overseas;

- China poses a set of more serious complications for U.S. interests in stability in Asia:

  - Beijing's nuclear weapons development has prompted India to develop a nuclear weapons capability, which in turn has caused Pakistan to seek such a capability.

  - Chinese moderation on North Korea's nuclear weapons program is seen by some Americans as judicious but others see China's stance undermining U.S.-backed efforts to curb the North Korean threat.

  - Chinese opposition to theater missile defense could complicate U.S. proposals to share such systems with Russia, Japan, South Korea, or other Chinese neighbors.

  - Beijing's position as the only East Asian power with an array of deployed nuclear weapons adds to regional concerns over how China intends to use military power now that Beijing's previous security preoccupation with the USSR has ended. This is a special concern for Taiwan, India, and Vietnam.

Options

In order to deal with possible complications posed by Chinese nuclear weapons and arms control policies and programs, U.S. officials have a variety of positive and negative incentives to consider in formulating an appropriate U.S. policy. The positive side of the ledger generally involves U.S. efforts to accommodate Chinese interests on nuclear issues, or to offer U.S. incentives in other areas that would elicit Chinese accommodation of U.S. nuclear concerns. The negative side includes efforts by the United States--either alone or with others--to pressure China to bring its policies more in line with U.S. interests.

It is important to add that some options likely will have an adverse impact on some of the broad array of economic, security and political issues that characterize the often contentious U.S.-China relationship. Prudence requires U.S. policymakers to consider the implications of particular options beyond their intended effect on Chinese nuclear policies and programs. (For a discussion of these broader issues and options, see CRS Issue Brief 94002, *China-U.S. Relations: Issues for Congress*, by Kerry Dumbaugh.)

Positive U.S. incentives could include a variety of U.S. efforts to make U.S. and possibly other forces in Asia appear to be less threatening to China, and thereby ease Chinese incentives for nuclear weapons development. Such gestures are U.S. and Russian pledges regarding no-first-use of nuclear weapons; declaration that U.S./Russian nuclear weapons are not targeted against China; improved dialogues over security issues between the United States and its allies and associates on one hand, and China on the other; sharing of U.S. intelligence and military technology with China that would give Beijing confidence that it need not engage in active nuclear weapons development; U.S.-Russian, and other force reductions around China's periphery; reassurance to China that U.S.-backed theater missile defense systems are not directed against China or designed to neutralize Chinese missile forces.

The United States also could try to accommodate Chinese concerns on nuclear force cuts, CTB, fissile material production, and MTCR. In general, such accommodation probably would slow the international decision making process and possibly weaken the standards set by the Clinton Administration in these areas of arms control. Meanwhile, U.S. policymakers could link U.S. accommodation of Chinese interests in other areas (e.g., trade policy) in return for more Chinese cooperation on nuclear arms control initiatives favored by the United States.

Negative U.S. initiatives could link Chinese behavior in the nuclear area to U.S. trade sanctions, limits on U.S. technology transfers, or deployment of U.S. forces with implications for China.[28] Multilaterally, the United States could work with Russia, Japan, and others to shore up the Asian security balance in the face of Chinese military efforts; or it could work with the other nuclear weapons powers to establish international standards on CTB and nuclear arms control that China could oppose only at considerable political cost. China reportedly fears that nascent Asian security arrangements could result in U.S. backed efforts to contain Chinese power and influence--an option for U.S. policy if Beijing proves to be uncooperative on nuclear issues. At the same time, if China remained uncooperative on nuclear arms control issues, the United States and its allies and associates could develop and deploy TMDs around China's periphery, thereby neutralizing much of the Chinese missile delivery threat.

---

[28] Thus, if China continues to develop nuclear weapons and delivery systems, the U.S. Congress may see a disadvantage to consenting to the ratification of the START and START II treaties and may find it inadvisable to reduce U.S. nuclear weapons below the 3,500 planned for START II. The United States may even perceive a need to reconsider forward deployment of tactical nuclear weapons.

DEBATE PROPOSITION -- RESOLVED: THAT THE UNITED STATES GOVERNMENT SHOULD SUBSTANTIALLY CHANGE ITS ECONOMIC POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA

China-U.S. Trade Issues

SUMMARY

The growing U.S. trade imbalance with China, and alleged Chinese unfair trade practices, have become of major concern to many U.S. policymakers. Over the past few years, the U.S. trade deficit with China has grown at a faster rate than that of any other major U.S. trading partner; in 1994, it reached nearly $30 billion. Many trade analysts have attributed the growing U.S.-China trade deficit to a variety of Chinese restrictive trade practices. Other areas of concern to the United States have included China's violation of U.S. intellectual property rights (IPR), transshipments of textiles to the United States, and China's alleged use of forced labor for products exported to the United States.

The growing U.S.-Chinese trade imbalance and China's alleged unfair trade practices have become focal points in congressional debate over China's most-favored-nation (MFN) status. Over the past few years, efforts have been made in Congress to pass legislation terminating or conditioning China's MFN.

On May 28, 1993, President Clinton issued an executive order continuing unconditional MFN for China for an additional year, but placing certain human rights conditions on renewal of China's MFN thereafter. On May 26, 1994, President Clinton announced a one-year extension of China's MFN status, though conceding that China had failed to make overall significant progress in human rights. In addition, President Clinton announced that he would not link human rights considerations to next year's extension of China's MFN status. On Aug. 9, 1994, legislation was defeated in the House that would have terminated or limited China's MFN status.

The United States has pressed China to improve its IPR protection regime. On Feb. 4, 1995, the USTR announced that trade sanctions would be issued against China for failing to stop rampant piracy of U.S. intellectual property. However, a preliminary agreement was reached on Feb. 26, 1995. China pledged to take a wide range of steps to crack down on piracy and to afford greater market access to U.S. firms.

The United States has also pressed China to significantly reform its trade regime to improve market access for U.S. goods and services. A market access agreement was reached in October 1992 in which China pledged to reduce trade barriers on a wide variety of products and to make its trade regime more transparent. The USTR has stated that China has implemented several trade reforms, but has not fully complied with all aspects of the agreement. The United States continues to press China to fully comply with the agreement.

China has made its entry into the World Trade Organization (WTO) a top priority. Negotiations between China and the United States (and other GATT members) on a protocol for China's entry failed to produce an agreement before the end of 1994. China blamed the United States for its failure to get into the WTO and later suspended the WTO talks. The U.S. position has been that China needs to substantially reform its trade regime before it is allowed to enter the WTO, while China has argued that it should be treated as a developing country, allowing it to implement reforms over time. In March 1995, China and the United States agreed to resume talks on conditions for China's accession to the WTO.

Reprinted from China-U.S. Trade Issues; Issue Brief, by Wayne M. Morrison.
Updated Regularly. (CRS Issue Brief IB91121)

Congressional Research Service • The Library of Congress

CRS

MOST RECENT DEVELOPMENTS

On Mar. 11, 1995, the United States and China signed a new agreement on intellectual property rights (IPR). China pledged to take a wide variety of steps to halt piracy of U.S. intellectual property-related products in China and to expand market access for such products. The agreement came after the United States (on Feb. 4, 1995) had threatened to issue trade sanctions against $1.1 billion worth of Chinese products (effective Feb. 26, 1994) in response to China's failure to adequately enforce U.S. IPR in China. A preliminary agreement was reached on Feb. 26, 1995, and signed on Mar. 11, 1995. On Mar. 12, 1995, China agreed to resume its implementation of the October 1992 market access agreement, reduce market barriers to certain agricultural products, and begin new talks on market access for U.S. telecommunications services and insurance. The United States pledged to support China's accession to the WTO as a founding member, and to conduct accession talks on a "flexible, pragmatic basis."

BACKGROUND AND ANALYSIS

U.S. Trade with China

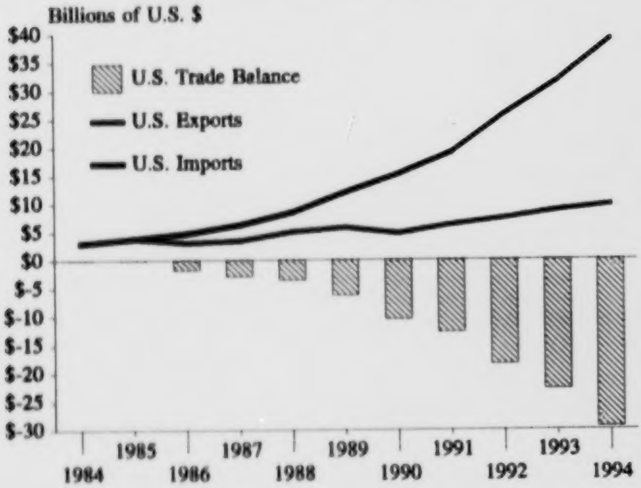
U.S. trade with China rose rapidly after the two nations established diplomatic relations (January 1979), signed a bilateral trade agreement (July 1979), and provided mutual MFN benefits beginning in 1980. Total trade (exports plus imports) between the two nations rose from $4.8 billion in 1980 to $48.1 billion in 1994 -- making China the 6th largest U.S. trading partner (**see table 1**). Over the past few years, the U.S. trade deficit with China has grown significantly, due largely to a surge in U.S. imports of Chinese goods relative to U.S. exports to China (**see figure 1**). Between 1990 and 1994, U.S. exports to China increased by 93.2%, while U.S. imports from China surged by 154.7%. As a result, the U.S. trade deficit with China has been rising at a faster rate than that of any other major U.S. trading partner. In 1984, the United States had a $61 million trade deficit with China. In just 10 years, the U.S. trade deficit with China surged to $29.5 billion, making China the second largest deficit trading partner of the United States behind Japan. If this trend continues, the U.S. trade deficit with China could one day exceed the U.S. trade imbalance with Japan.

Table 1. U.S. Merchandise Trade with China: 1984-1994
($Millions)

Year	U.S. Exports	U.S. Imports	U.S. Trade Balance
1984	$3,004	$3,065	-$61
1985	3,852	3,862	-10
1986	3,105	4,771	-1,666
1987	3,488	6,293	-2,805
1988	5,033	8,512	-3,479
1989	5,807	11,989	-6,181
1990	4,807	15,224	-10,417
1991	6,278	18,976	-12,698
1992	7,418	25,727	-18,309
1993	8,767	31,535	-22,768
1994	9,287	38,781	-29,494

Source: U.S. Department of Commerce, Bureau of the Census.

FIGURE 1 U.S. Merchandise Trade with China, 1984-1994



Source: U.S. Department of Commerce.

U.S. Exports to China

U.S. exports to China in 1994 totalled $9.3 billion, accounting for 1.8% of total U.S. exports to the world, and making China the 14th largest market for U.S. exports. At present, China is a relatively small market for U.S. exports. For example, U.S. exports to China are smaller than those to such Asian countries as Hong Kong, Singapore, South Korea, and Taiwan. However, China is becoming one of the fastest growing markets for U.S. exports.

As indicated in table 2, U.S. exports to China are much smaller than U.S. exports to many other countries and regions of the world such as the European Union (EU), the newly industrialized countries (NICs) in Asia, Canada, Japan, and Mexico. However, from 1990 to 1994, U.S. exports to China grew by 93.8%, compared to 30.2% for the world, 4.9% for the EU, 46.4% for the Asian NICs, 37.7% for Canada, 10.1% for Japan, and 78.9% for Mexico.

TABLE 2. U.S. Exports to Selected Trading Partners: 1990-1994
($billions and % change)

	1990	1991	1992	1993	1994	1990/1994 % Change
World	$393.6	$421.7	$448.2	$464.9	$512.4	30.2%
China	4.8	6.3	7.4	8.8	9.3	93.8
EU	98.0	103.2	102.8	97.0	102.8	4.9
Asian NICs	40.7	45.7	48.7	52.6	59.6	46.4
Canada	83.0	85.1	90.2	100.2	114.3	37.7
Japan	48.6	48.1	47.8	47.9	53.5	10.1
Mexico	28.4	33.3	40.6	41.6	50.8	78.9

Source: U.S. Department of Commerce. Data obtain by CRS using Tradenet. Calculations performed by CRS.

The top five U.S. exports to China in 1994 were (1) transport equipment (mainly aircraft and parts), (2) fertilizers, (3) textile fibers, (4) specialized machinery, and (5) telecommunication and sound equipment. Together, these five commodities accounted for over half of total U.S. exports to China (see table 3). Aircraft and parts was by far the largest U.S. export to China in 1994, accounting for 20.9% of total U.S. exports.

BEST COPY AVAILABLE

TABLE 3. Top Ten U.S. Exports to China: 1990 and 1994
($millions)

SITC Commodity	1990	1994	1990/1994 % Change
Total all commodities	$4,807	$9,287	93.2%
Transport equipment, n.e.s., excluding road vehicles (mainly aircraft and parts)	755	1,936	156.3
Fertilizers (except crude of group 272)	544	944	73.5
Textile fibers & their wastes	385	761	97.7
Machinery specialized for particular industries	323	676	109.3
Telecommun & sound record & reproduce app & equip.	81	572	606.0
General industrial machry & equipmt, n.e.s. & pts.	179	520	190.5
Electrical machry, apparatus & appliances, n.e.s.	137	298	117.5
Road vehicles (inc air-cushion vehicles)	50	297	490.0
Metalworking machinery	75	296	294.7
Professional scient & control inst & apparatus nes	191	288	50.8

Ranked according to the top 10 U.S. exports to China in 1994, based on the Standard International Trade Classification (SITC) system, two-digit level.

Note: n.e.s. stands for not elsewhere specified.

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet.

While China is currently a relatively small market for U.S. exports, many trade analysts argue that China will likely prove to be a significant market in the future. China is one of the world's fastest growing economies, and its efforts to reform and modernize its economy could result in a significant increase in demand for a wide variety of products and services in the near future. The Chinese government has announced extensive plans to upgrade and modernize the economy. Infrastructure development, in particular, has been made a major priority, and the Chinese government has announced that foreign firms will be allowed to participate in a wide variety of projects. Priority development sectors include energy, transportation, and telecommunications. The United States and Foreign Commercial Service (US&FCS) projects that the top five best commercial prospects (based on size and growth potential) for U.S. firms in China for 1994-1995 will be (1) aircraft and parts, (2) electric power systems, (3) computers and peripherals, (4) telecommunications equipment, and (5) automotive parts and service equipment.

Major U.S. Imports From China

China is a relatively large source of many U.S. imports. In 1994, imports from China accounted for 5.8% of total U.S. imports, making China the fourth largest

BEST COPY AVAILABLE

supplier of U.S. imports. The level of U.S. imports from China nearly doubled between 1991 and 1994. The top five U.S. imports from China in 1994 were (1) miscellaneous manufactured articles (such as toys, games, etc.); (2) clothing and apparel; (3) footwear; (4) telecommunications equipment, sound recording, and reproducing equipment (such as telephone answering machines, radios, tape recorders and players, televisions, VCRs, etc.); and (5) electrical machinery (see **table 5**). Together, imports of these five commodities accounted for over two-thirds of total U.S. imports from China. U.S. imports from China in 1994 rose by $7.2 billion (or 23.0%) over the previous year. Imports of miscellaneous manufactured articles, clothing, and footwear accounted for a substantial share of this increase.

TABLE 5. Top 10 U.S. Imports From China: 1990 and 1994
($millions and % increase)

SITC Commodity	1990	1994	1990/1994 % Change
Total all commodities	$15,224	$38,781	107.1%
Miscellaneous manufactured articles, n.e.s.	3,243	8,690	168.0
Articles of apparel and clothing accessories	3,469	6,311	81.9
Footwear	1,477	5,259	256.1
Telecommun & sound record & reproduce app. & equip.	1,163	3,779	224.9
Electrical machry, apparatus & appliances, n.e.s.	657	2,275	246.3
Office machs, automatic data processing machs.	118	1,618	1,271.2
Travel goods, handbags and similar containers	696	1,561	124.3
Textile yarn, fabrics, made-up articles, n.e.s.	658	1,045	58.8
Manufactures of metals, n.e.s.	381	979	157.0
Furniture & pts; bedding, mattresses, etc.	145	752	418.6

*Ranked according to the top U.S. 10 imports from China in 1994, based on the Standard International Trade Classification (SITC) system, two-digit level.

Note: n.e.s. stands for not elsewhere specified.

Source: U.S. Department of Commerce. Data obtained by CRS using Tradenet.

The surge in U.S. imports of Chinese products over the past few years can be largely explained by two factors. First, China's production of low-cost, labor-intensive products (such as consumer goods) has increased sharply in recent years (due to China's comparative advantage in such sectors); U.S. demand for such products has steadily increased as well. Secondly, Hong Kong and Taiwan have shifted production of a wide variety of labor-intensive products (such as shoes, toys, and electronic products) into China to take advantage of China's relatively low-cost labor supply. As a result, many of the products that used to be produced in Taiwan and Hong Kong (a large share of which were exported to the United States) are now being produced by Hong Kong and Taiwanese firms in China, then exported.

China's Trade With the United States

The United States is currently China's largest market for its exports. The importance of the United States market for Chinese exports has rose sharply over the past seven years. Chinese exports to the United States grew from $5.5 billion in 1988 to $38.8 billion in 1994. The U.S. share as a destination of total Chinese exports rose from 11.5% in 1988 to 36.7% in 1994 (**see table 6**).

TABLE 6. Chinese Exports to the World and United States*: 1988-1994
($billions)

Year	Total Chinese Exports	Chinese Exports to the United States	Chinese Exports to the United States as a % of Total Exports
1988	$47.7	$5.5	11.5%
1989	52.9	12.0	22.7
1990	62.7	15.2	24.2
1991	72.0	19.0	26.4
1992	85.6	25.7	30.0
1993	91.8	31.5	34.3
1994	105.6	38.8	36.7

***Note:** data on total Chinese exports to the world are official Chinese trade statistics. Data on Chinese exports to the United States are U.S. data (reported as U.S. imports of Chinese products into the United States).

Chinese data for 1994 are estimates.

Source: International Monetary Fund, *Direction of Trade Statistics*, and U.S. Department of Commerce.

Congressional Debate Over U.S.-China Trade Relations

Congressional concerns over the growing U.S. trade deficit with China and unfair Chinese trade practices have been major factors during congressional debate in recent years over whether or not to deny or condition China's MFN status, along with human rights, weapons proliferation, and foreign policy issues. As a result, efforts have been made in Congress to revoke China's MFN status or to condition it to a Presidential certification that China has made improvements in these areas. This policy was opposed by the Bush Administration, which sought to deal with these issues outside the MFN process. As a result, President Bush vetoed congressional attempts to revoke or condition China's MFN, and such vetoes were consistently sustained in the Senate. As a presidential candidate, Bill Clinton criticized the Bush Administration's China policy and pledged to take a tougher approach to U.S.-China trade relations, including conditioning China's MFN renewal.

On May 28, 1993, President Clinton issued an executive order effectively continuing China's unconditional MFN status for an additional year (through July 1994), but placing conditions on China's MFN status thereafter. Specifically, the Secretary of State could not recommend an extension of China's MFN unless he determined that China had abided by its 1992 agreement to halt exports of prison labor products to the United States, and that an extension would substantially promote freedom of emigration objectives of the Jackson-Vanik amendment to the 1974 Trade Act. In addition, the Secretary of State had to consider whether China had made overall significant progress in specific areas of human rights.

On May 26, 1994, President Clinton announced his decision to extend China's MFN status for an additional year, even though China did not achieve overall significant progress in human rights. The President also announced that human rights conditions (other than freedom of emigration) would not be linked to China's continued MFN status, but instead would be addressed by other means. However, the President announced that the United States would impose sanctions on U.S. imports of Chinese munitions due to alleged violations of human rights in China.

On Aug. 9, 1994, the House considered three legislative proposals dealing with China's MFN Status:

- **H.J.Res. 373** (introduced by Representative Solomon on June 8, 1994) would disapprove the President's waiver authority (to extend China's unconditional MFN status), thereby terminating China's MFN status in 1994. The resolution was defeated by a vote of 75-356.

- **H.R. 4590** (introduced by Representative Pelosi on June 16, 1994) specifies that if a disapproval resolution (such as H.J.Res. 373) of the President's Jackson-Vanik waiver on China's MFN status is enacted into law, a termination of MFN tariff treatment would apply only to U.S. imports of commodities produced, manufactured or exported by Chinese state-owned enterprises. If a disapproval resolution is not enacted, a termination of MFN tariff treatment would apply to *any* good produced, manufactured, or exported by the Chinese People's Liberation Army or a Chinese defense industrial company; as well as *certain* goods (such as textiles and apparel, footwear, and plastics) produced, manufactured, or exported by Chinese state-owned enterprises. The Pelosi bill was rejected by a vote of 158-270.

- **H.R. 4891** (introduced by Representative Hamilton on Aug. 3, 1994, and offered as a substitute amendment to **H.R. 4590**) basically would codify the President's May 26, 1994, China MFN status decision. In addition, the bill would authorize funding for the promotion of human rights in China. The provision was adopted by a vote of 280-152.

It is likely that the Administration will seek to extend China's unconditional MFN status for an additional year. Congressional proposals might be considered to deny or condition China's MFN status. However, to date, no such legislation has yet been proposed.

Violations of U.S. Intellectual Property Rights

Section 182 of the Trade Act of 1974, as amended by section 1303 of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418), requires the USTR to identify "priority" countries which violate U.S. intellectual property rights (IPR), including patents, copyrights, trademarks, and trade secrets. Under this provision, also known as "Special 301," the USTR is required to initiate a Section 301 investigation of priority countries which fail to provide adequate and effective protection of U.S. intellectual property rights (IPR) or deny fair and equitable market access to U.S. firms which rely on IPR protection. The USTR is directed to seek negotiations with the priority nations to end such violations and, under certain circumstances, to recommend retaliatory measures to the President if such violations have not ceased within 6 to 9 months of the USTR's investigation.

In April 1991, China (along with India and Thailand) was named as a priority country under Special 301. A formal Section 301 investigation was launched by the USTR on May 26, 1991, of four specific deficiencies in China's IPR practices that were responsible for the denial of adequate and effective protection for U.S. property:

-- deficiencies in the patent law, in particular, the failure to provide product patent protection for chemicals, including pharmaceuticals and agrichemicals;

-- lack of copyright protection for U.S. works not first published in China;

-- deficient levels of protection under the copyright law and regulations; and

-- inadequate protection of trade secrets.

On Nov. 26, 1991, the USTR determined that insufficient progress had been made in resolving Chinese IPR violations. The USTR decided to extend the investigation, but ordered to be printed in the Federal Register a draft list of products imported from China that would be subject to possible U.S. trade sanctions if an agreement was not reached by Jan. 16, 1992. China in turn warned that such action would prompt retaliation against U.S. products. However, last-minute negotiations yielded an MOU agreement on Jan. 16, 1992 and, as a result, the USTR decided to terminate the Section 301 case. Under the MOU, China agreed to strengthen its patent, copyright, and trade secret laws, and to improve protection of U.S. intellectual property, including computer software, sound recordings, agrichemicals, and pharmaceuticals.

On June 30, 1994, the USTR designated China as a priority foreign country under Special 301 and initiated an investigation. The USTR noted that, while China had implemented several new laws protecting intellectual property, it had failed to enforce such laws. The USTR stated that "China enforcement of its laws and regulations is sporadic at best and virtually non-existent for copyrighted works." In particular, the USTR cited the establishment of 26 CD and laser disk factories in China which were allegedly producing pirated CDs, as an example of China's "egregious" violation of U.S. IPR. In addition, the USTR stated that trade barriers had restricted access to China's market for U.S. movies, videos, and sound recordings, and that such restrictions encouraged piracy of such products in China. The United States called on China to take effective and immediate measures to curb piracy (including making raids on certain CD producers), instituting structural changes to improve intellectual property protection over time (such as creating a border enforcement regime, instituting a copyright verification system, and providing access to IPR courts), and providing greater market access for U.S. intellectual property-based products.

On Feb. 4, 1995, the USTR announced that insufficient progress had been made in talks with Chinese officials and issued a list of Chinese products, with an estimated value of $1.08 billion, which would be subject to 100% import tariffs, effective on Feb. 26, 1995. China in turn warned that it would issue sanctions against U.S. firms in retaliation. However, a preliminary agreement was reached on Feb. 26, 1995, and a formal agreement was signed on Mar. 11, 1995.

The new agreement pledges China to substantially beef up its IPR enforcement regime and to remove various import and investment barriers. Specifically, China agreed to:

- **Take immediate steps to stem IPR piracy in China over the course of the next three months** by taking action against large-scale producers and distributors of pirated materials, and prohibiting the export of pirated products such as CDs, LDs, and CD-ROMs.

- **Establish mechanisms to ensure long-term enforcement of IPR laws,** such as banning the use of pirated materials by the Chinese government, establishing a coordinated IPR enforcement policy among each level of government, beefing up IPR enforcement agencies, creating an effective customs enforcement system, establishing a title verification system in China to ensure that U.S. audio visual works are protected against unauthorized use, reforming China's judicial system to ensure that U.S. firms can obtain access to effective judicial relief, establishing a system of maintaining statistics concerning China's enforcement efforts and meeting with U.S. officials on a regular basis to discuss those efforts, improving transparency in Chinese laws concerning IPR, and strictly enforcing IPR laws.

- **Provide greater market access to U.S. products** by removing import quotas on U.S. audio visual products, allowing U.S. record companies to market their entire works in China (subject to Chinese censorship concerns), and allowing U.S. intellectual property-related industries to enter into joint production arrangements with Chinese firms in certain Chinese cities.

Section 301 Investigation of Major Chinese Trade Barriers

U.S. officials have held negotiations with China over the past several years regarding U.S. concerns over Chinese restrictive trade and investment barriers. In April 1991, the Bush Administration initiated a Section 301 case against four significant unfair trading practices affecting U.S. exports to China:

-- selected product-specific and sector-specific import prohibitions and quantitative restrictions;

-- selective restrictions on imports made effective through restrictive import license requirements;

- selected technical barriers to trade, including standards, testing and certification requirements, and policy toward phytosanitary and veterinary standards that create unnecessary obstacles to trade; and

- failure to publish laws, regulations, judicial decisions, and administrative rulings of general application pertaining to customs requirements, restrictions, or prohibitions on imports or affecting their sale or distribution in China.

The Section 301 case against China was highly unusual due to its breadth of coverage. Most Section 301 cases involve investigations of certain trade restrictions to specific products. However, the China Section 301 case was the most sweeping market access investigation in the USTR's history; it was essentially aimed at substantially reforming China's entire trade regime. In addition, the USTR linked U.S. support for China's re-entry into the General Agreement on Tariffs and Trade (GATT) to a successful resolution of the trade dispute.

On Aug. 21, 1992, the USTR determined that negotiations had failed to resolve the trade dispute and threatened to impose $3.9 billion in U.S. trade sanctions unless an agreement was reached by Oct. 10, 1992. The proposed sanctions were the highest level ever issued by the USTR under a Section 301 case. China in turn threatened retaliation against a comparable level of U.S. products.

On Oct. 10, 1992, the United States and China reached an agreement settling the Section 301 case. Under a Memorandum of Understanding (MOU), China pledged to reduce or eliminate a wide variety of trade barriers over the next 5 years (according to specific timetables), including tariffs, quotas, import restrictions, import licenses, and import substitution laws. In addition, China agreed to take a number of specified steps to make its trade regime more transparent, such as publishing its trade laws and regulations. Finally, China agreed to establish a joint working group to eliminate scientific standards and testing barriers to agricultural imports within 12 months. For its part, the United States pledged to "staunchly support" China's entry into the GATT and to reduce exports controls on computer and telecommunications equipment exports to China.

U.S. trade officials have held several rounds of talks with Chinese officials concerning China's implementation of the Oct. 10, 1992, MOU on market access. USTR officials have noted that, while China has made overall progress in reforming its trade regime, it has moved too slowly in implementing certain aspects of the agreement, such as the removal of all quantitative barriers to certain products (such as computers, textiles, and heavy machinery), making China's trade regulations more fully transparent and uniformly applied, and eliminating discriminatory sanitary regulations on imported food products. On several occasions, the USTR has threatened to impose trade sanctions against China for failing to comply with certain aspects of the MOU.

Failure on the part of China to gain status as a founding member of the World Trade Organization (WTO) at the end of 1994 led China to subsequently announce that it would no longer abide by the market access agreement, due to the U.S. position on conditions for China's entry into the WTO. However, following the signing of the U.S.-Chinese agreement on IPR in March 1995, U.S. and Chinese officials announced that an agreement had been reached in which China would resume its implementation of the market access MOU by no later than Mar. 31, 1995, and that talks would be held with the United States concerning liberalizing China's markets for telecommunications services and insurance (see discussion on China and the WTO below).

Illegal Textile Transshipments

The U.S. Customs Service has found evidence on several occasions that China has attempted to circumvent U.S. textile quotas by transshipping Chinese products through other countries to the United States using false country of origin labels, and through misclassification of textile and apparel products. The USTR estimates that such transshipments may total $2 billion each year. In addition, the United States has charged that certain Chinese entities have sought to avoid U.S. tariffs by undervaluing textile and apparel shipments. Charges by the U.S. Customs Service of illegal transshipments by China have led the United States on a number of occasions to reduce China's textile and apparel quotas on specific products.

On Jan. 6, 1994, the USTR announced that China's textile and apparel quota would be significantly reduced (25% to 35% below 1993 levels) due to China's refusal to accept anti-circumvention provisions in a new textile agreement. The new quota levels were set to take effect on Jan. 17, 1994. However, on Jan. 17, 1994, the United States and China concluded a new textile agreement that would effectively reduce the growth rate of China's textile exports to the United States, and allows the United States to significantly reduce China's quotas (under certain conditions) if China violates the agreement through transshipments. In addition, the agreement sets new quotas on Chinese silk apparel. The textile agreement is effective for 3 years.

Prison Labor Exports

The use of forced labor is believed to be widespread and a long-standing practice in China. Recent evidence suggests that China may be utilizing forced labor on a large scale in order to boost its exports, a large portion of which may be targeted to the United States. The importation from any country of commodities produced through the use of forced labor is prohibited by U.S. law, although obtaining proof of actual violations for **specific** imported products is often extremely difficult.

In July 1991, the Bush Administration pledged to increase inspections by the U.S. Customs Service of imported Chinese products suspected of being produced using prison labor. Over the past two years, the Customs Service has banned the release of certain imported Chinese-made products (including wrenches, steel pipes, machine tools, machine presses, diesel engines, hosiery, tea products, and sheepskin and leather products) suspected of being produced by forced labor until a determination could be made whether such products were in fact produced with prison labor.

On Aug. 7, 1992, the United States and China formally signed an MOU to ensure that products made by forced labor in China are not exported to the United States. China agreed to provide U.S. officials with access to forced labor sites suspected of producing products for export to the United States. On Mar. 14, 1994, the United States and China signed an agreement in which China pledged prompt compliance with the MOU by giving U.S. officials access to Chinese production facilities within 60 days of a U.S. request. The President's May 26, 1994, China MFN status report states that China has abided by the MOU. However, reports by certain human rights groups have charged that China has taken a number of steps to circumvent the MOU on prison labor exports. The Administration has pledged to investigate these charges.

China and the WTO

The Chinese government has made China's accession to the GATT and becoming a founding member of the World Trade Organization (WTO) a major priority. China believes that accession into the WTO would enable it to gain nondiscriminatory treatment in its trade relations with WTO members and provide it access to the multilateral trade dispute resolution process. Supporters of China's WTO membership argue that it would bring China's trade regime in line with other WTO members and would result in a significant reduction of Chinese trade barriers. Currently at issue are the specific steps China would be required to make to gain accession to the WTO.

The Chinese government has argued that China is a developing country and hence should be allowed to implement reforms gradually over a period of time and be allowed to protect certain industries. The United States and certain other WTO members argue that China is a major trading power and hence should be made to bring its trade regime more in line with basic multilateral trade rules once China is brought into the WTO. Specifically, it is argued that China should make it trade regime more transparent, afford national treatment to foreign firms in China, create a fully market-oriented exchange rate system, remove investment and import restrictions, provide adequate protection of IPR, phase out price controls, and limit government protection of infant industries.

Talks between Chinese officials and a GATT working party failed to yield an agreement on a protocol for China's accession to the WTO before the end of 1994, preventing China from becoming a founding WTO member. Chinese officials viewed the United States as having posed the greatest impediment to its entry into the WTO. Subsequently, China broke off WTO negotiations and announced that it would suspend implementation of the October 1992 market access MOU with the United States. However, following the March 1995 signing of the U.S.-Chinese IPR agreement, China pledged to resume implementing the market access MOU, while the United States pledged to hold talks with China on its accession to the WTO on a *"flexible, pragmatic, and realistic basis, and to address realistically the issue of China's developing country status on the basis of the Uruguay Round Agreement."* New talks are expected to start in April 1995. If China eventually accedes to the WTO, it might be brought in under a clause which would allow it to be recognized as a founding WTO member.

Prospects For Future U.S-Chinese Trade Relations

China's economy is one of the fastest growing economies in the world. Its real GDP grew by nearly 11% in 1994 and is expected to grow by about 9% annually through the year 2000. China's rapid economic growth, coupled with economic reforms and trade liberalization, have in recent years led to sharp increases in the level of

Chinese imports and exports. China is currently the world's 11th largest trading country.

Over the past several years, China has become an increasingly important trading partner of the United States. China is now the fourth largest supplier of U.S. imports and the 14th largest destination for U.S. exports. However, in recent years, the U.S. trade deficit with China ($29.5 billion in 1994) has grown at a faster rate (nearly 30% in 1994) than that of any other trading partner. China is now the second largest U.S. deficit trading country after Japan. The rising bilateral trade imbalance has been, and will likely remain, a significant source of friction between the United States and China.

Some U.S. analysts have blamed the rising U.S. trade deficit on China's widespread use of investment and trade barriers. As a result, the United States has pressed China, often under the threat of trade sanctions, to significantly improve market access for U.S. products in China and to afford U.S. firms effective IPR protection. These efforts yielded MOU agreements on market access and intellectual property rights in 1992. However, while U.S. officials have deemed China to be generally in compliance with both agreements, they have noted that China has failed to implement certain aspects of those agreements. For example, in the case of market access, China has not removed many of its phytosanitary restrictions on agricultural products and quantitative restrictions on specific industrial sectors, and has been slow in making its trade regime fully transparent. U.S. officials have continued to press China to fully implement the market access MOU.

In the case of intellectual property rights, U.S. officials found that, while China had enacted new IPR laws as specified under the 1992 MOU on IPR, it had failed to enforce those laws and did not provide adequate access to U.S. intellectual property-related products. When talks between the two nations failed to yield an agreement, the United States threatened to issue sanctions against China. However, a last-minute agreement was reached in February 1995 (and signed in March 1995) which adverted a possible trade war between the two nations.

The March 1995 IPR agreement with China will likely have a significant effect on U.S.-Chinese trade relations for several reasons. First, it represents a significant commitment by the Chinese to take widespread and effective action against IPR piracy in China, and will provide greater market access for U.S. intellectual property-related products and U.S. investment. Second, the agreement subsequently led to China to pledge to resume its implementation of the October 1992 market access MOU and to extend talks with U.S. officials on providing greater market access to U.S. agricultural products. In addition, China agreed to open new talks on market access to telecommunications services and insurance (once talks on China's WTO application resume). Finally, the agreement led the United States and China to agree to resume efforts to obtain China's entry into the WTO. (Effective protection of IPR was a major condition for U.S. support of China's accession to the WTO).

For its part, the United States has reiterated its support for China's accession into the WTO as a founding member, and has stated that U.S.-Chinese talks in this area would "realistically address the issue of China's developing country status on the basis of the Uruguay Round Agreement." It appears that the United States may support treating China as a *developed* country for some types of trade practices (thus requiring China to take immediate steps to bring such practices within multilateral rules), while treating China as a *developing* country for other types of trade practices (thus allowing China to implement reforms over a certain period of time) in order to obtain WTO membership.

The long-term outlook for U.S.-Chinese trade relations remains uncertain. On the one hand, many analysts predict that China is likely to be an increasingly important market for many U.S. products and services in the years ahead, especially for U.S. transportation, telecommunications, and energy sectors. The Commerce Department has identified China as one of the top 10 "Big Emerging Markets" offering the largest export potential for U.S. firms. On the other hand, the ability of U.S. exporters to take advantage of China's growing economy will likely depend on China's reduction in its investment and trade barriers. Hence, the United States will likely to continue to press China to reform its trade regime by closely monitoring China's compliance with its MOUs with the United States on market access and IPR, and by insisting that certain Chinese trade practices be brought into line with multilateral rules as a condition for China's entry into the WTO. Trade tensions over these issues are likely to be prevalent in the years ahead and could flare up if the United States deems that China is not in compliance with its trade agreements, or if the United States (and other WTO members) and China are unable to reach a compromise on China's accession to the WTO.

The 104th Congress may attempt to influence U.S.-China commercial relations through various methods. Legislation might be introduced to terminate China's MFN status, or condition it to commercial and/or non-commercial factors (such as human rights, weapons proliferation, and U.S.-Taiwan relations).

TRADE POLICY IN THE 104TH CONGRESS

SUMMARY

After passing laws to implement two major trade agreements—the North American Free Trade Agreement and the Uruguay Round Agreements—in the past two years, the trade agenda for Congress remains busy. The 104th Congress is likely to be active in overseeing the implementation of the two recent agreements, setting priorities for future trade negotiations, and considering important new trade legislation.

Implementation of NAFTA and the Uruguay Round Agreements will influence many of the tools of U.S. trade policy. Tariffs will be lower, and the ways that the U.S. Government uses trade remedy laws, laws to improve access to foreign markets, and export promotion programs will change in accordance with commitments made under the trade agreements. The trade policies of other countries must also change. Congressional committees are likely to be active in monitoring the implementation of the agreements.

A key legislative proposal in the 104th Congress is renewal of fast-track procedures for congressional consideration of trade agreements. Fast-track, which was instrumental in passing implementing legislation for the Uruguay Round and NAFTA, expired in 1994 and is considered by many observers to be essential to the success of future trade negotiations. Consideration of fast-track legislation is likely to be accompanied by debate over both legislative procedures and the goals of U.S. trade negotiations. Congress is likely to debate whether fast-track authority represents too large an extension of discretionary authority to the executive branch, what kind of consultations should be required between the Executive and Congress during trade negotiations, and what negotiating objectives should be pursued by U.S. negotiators.

Other likely legislative proposals in the 104th Congress include important tariff issues, such as most-favored-nation treatment for China and other countries in transition to market economies, extension of the generalized system of preferences, and tariff preferences for Caribbean countries. Proposals to establish a commission to review decisions of the World Trade Organization's dispute resolution panels, to change U.S. antidumping procedures for Russia and other countries of Eastern and Central Europe, to amend and extend the Export Administration Act, and to change the level of U.S. export promotion expenditures may also be considered.

Congressional consideration of recent trade agreements included a fundamental debate about the costs and benefits of trade liberalization—a debate that may be resumed in the 104th Congress. The main thrust of U.S. trade policy in the postwar era has been to reduce barriers to trade. The rationale for trade liberalization, based on economic theory and the experience of the U.S. and other economies, has been that removal of barriers promotes economic efficiency and raises the economic well being of all countries. While concerns about adjustment costs have led some observers to question the underlying rationale for U.S. trade policy, most economists support policies to remove barriers to trade.

Trade Policy in the 104th Congress, by the Economics Division, Congressional Research Service. Washington, Congressional Research Service, 1995. 79 p. (CRS Report no. 95-485 E, April 10, 1995)

TRADE POLICY IN THE 104TH CONGRESS

U.S. trade policy reached an important juncture with enactment during the 103d Congress of implementing legislation for the North American Free Trade Agreement (NAFTA) and the Uruguay Round agreements of the General Agreement on Tariffs and Trade (GATT). The two agreements introduced major changes in the trade policies of the United States and other countries. Both agreements, NAFTA at the regional level and the Uruguay Round at the multilateral level, lowered tariffs and established new rules for dispute settlement, protection of intellectual property rights, trade in services, textiles and agricultural products, and other matters. The Uruguay Round agreements established a new structure, the World Trade Organization (WTO), to administer world trade rules. The WTO's responsibilities will be broader than its predecessor: it will cover new trade issues and probably the trade of prospective new members, such as China, Russia, and Taiwan.

An important part of the trade agenda of the 104th Congress will be oversight of the implementation of the two landmark agreements. Of general concern will be the early effects of reduced trade barriers on the U.S. economy. While most economists have forecast that the agreements will bring small improvements in efficiency and welfare for the U.S. economy, all expect some adjustment costs. The course of the debate over future trade liberalization is likely to depend in part on how Members weigh the gains to U.S. exporters and consumers against the costs to import-competing producers. Members are also likely to debate the effects of the trade agreements on the economies of major U.S. trade partners and on key U.S. bilateral relationships.[1] For example, NAFTA's effects on the Mexican and Canadian economies, and the Uruguay Round's effects on U.S. trade relations with Japan, China, and the European Union are likely to be major topics of concern.

Congressional oversight hearings may focus on how NAFTA and the Uruguay Round affect the tools of U.S. trade policy. The two agreements required significant changes in U.S. trade remedy laws, such as those pertaining to dumping, subsidies, and safeguards. They will also affect the application of U.S. laws designed to open foreign government procurement markets for U.S. exporters, protect U.S. intellectual property rights, and combat other foreign unfair trade practices. Congress is also likely to monitor implementation of major changes in the trade regimes for agricultural products and textiles.

---

[1] The effects of the trade agreements on the economies of the United States and other countries, discussed briefly in this report, are analyzed in more detail in several CRS reports. See, for example, U.S. Library of Congress. Congressional Research Service. *A Reappraisal of the Economic Effects of the 1994 GATT Agreement*. Report No. 94-659 E, by Craig Elwell and Alfred Reifman, *United States-Mexico Economic Relations: Has NAFTA Made a Difference?* Report No. 95-398 E, by J. F. Hornbeck, and, *NAFTA: A Broad Economic Perspective*. Report No. 93-974 E, by Arlene Wilson.

The 104th Congress is also likely to consider important new trade legislation, including proposals to renew "fast-track" procedures for congressional consideration of trade agreements. (Fast-track authority provides that Congress will consider trade agreements expeditiously and without amendment.) If the 104th Congress considers a new fast-track authority, Members are likely to debate whether past procedures for considering trade agreements should be renewed. A central concern is how much discretionary authority Congress should extend to the President in trade policy. Congress is also likely to debate the goals of future negotiations—for example, whether regional or multilateral negotiations should be emphasized and which issues should be given priority.

Although the implementing legislation for NAFTA and the Uruguay Round introduced major changes in U.S. tariff policy, several important tariff issues remain for consideration by the current Congress. Congress may, for example, consider legislative proposals to deny most-favored-nation tariff treatment (MFN) to China and to extend or make permanent MFN treatment for other countries. Other important tariff legislation may include proposals to extend the Generalized System of Preferences (GSP) for developing countries, and to give Caribbean countries tariff preferences that are equal to those extended to Mexico under NAFTA.

Among the other legislative issues that Congress may consider are proposals to set up a commission to review decisions of the WTO's dispute resolution panels, to change U.S. antidumping procedures for Russia and other countries of Eastern and Central Europe, to amend and extend the Export Administration Act, and to reduce (or increase) the level of U.S. export promotion expenditures.

This report surveys the major trade issues in the 104th Congress. It provides a brief historical perspective of Congress' role in trade policy, particularly the evolution of fast-track procedures for trade agreements, and reviews the results of the important Uruguay Round and NAFTA agreements, which are likely to be subjects of oversight hearings. In particular, it examines the effects of the recent agreements on the application of U.S. trade remedy laws, laws to improve access of U.S. exporters to foreign markets, and the trade regimes for agricultural products and textiles. It discusses likely legislative proposals to change U.S. import and export laws and to authorize fast-track procedures for implementing future trade agreements. To put the trade issues before the 104th Congress in an economic perspective, the report examines the economic rationale for trade liberalization and reviews the role of trade in the U.S. economy in recent years.

THE ROLE OF CONGRESS IN TRADE AGREEMENTS[*]

While the Constitution gives Congress primary power to conduct trade policy,[2] its interaction with the President in implementing trade agreements has varied over the past two centuries. Through much of U.S. history, until the 1930s, Congress exercised its trade powers by passing laws that set U.S. tariff rates and generally formulated U.S. trade policy. Tariffs were relatively high, and tariff laws were the major tools for regulating trade. During that period, the President's role was largely limited to administering trade laws, collecting tariffs, and exercising his treaty-making powers to negotiate treaties of "friendship, commerce and navigation."

The procedure for setting U.S. tariff rates changed in 1934 with enactment of the Reciprocal Trade Agreements Act of 1934 (P.L. 73-316). The 1934 Act was motivated in part by disenchantment with previous procedures, which had resulted in a succession of highly protectionist tariffs, culminating with the Smoot-Hawley Tariff Act of 1930 (P.L. 71-131). The 1934 Act authorized the President to negotiate reciprocal reductions of trade barriers with U.S. trade partners. The President was authorized, within a limited range and for a limited time period, to proclaim the negotiated reductions in tariffs and other import restrictions. The authority of the 1934 Act, which was extended several times, was used to negotiate bilateral tariff reductions in the period prior to World War II and, after 1947, to negotiate multilateral tariff reductions in the General Agreement on Tariffs and Trade (GATT).

FAST-TRACK AUTHORITY AND MULTILATERAL TRADE NEGOTIATIONS

Enactment of the Trade Act of 1974 (P.L. 93-618) marked an important change from the approach taken in the Reciprocal Trade Agreements Act. Congress continued to delegate to the President the authority to negotiate and proclaim tariff cuts within specified limits. The 1974 Act, however, provided more direction on negotiating objectives, required more extensive consultation between Congress and the President during trade negotiations, and reserved for Congress the power to implement agreements on nontariff matters through legislation. The Act strengthened Congress' ability to monitor U.S. trade policy during the negotiations, and provided that certain actions by the executive branch could be overridden by a majority vote of the House and Senate.[3]

---

[*] By George D Holliday, Economics Division, CRS

[2] Article I, Section 8 of the Constitution empowers Congress "to regulate commerce with foreign nations" and "to lay and collect taxes, duties, imposts, and excises."

[3] Examples of such provisions were measures that allowed Congress to override certain Presidential actions on import relief and on trade agreements with nonmarket economy countries. The provisions were subsequently amended after the Supreme Court's *INS vs. Chadha* decision in 1983, which found legislative vetoes unconstitutional.

Perhaps the most important of the changes was the enactment of fast-track authority for negotiating trade agreements on nontariff barriers to trade. The Act provided for mandatory consultations between the executive branch and the Congress during such negotiations and prior notification of relevant committees in advance of entering agreements. Fast-track authority provided that, if the President met the conditions set forth in the Act, Congress would consider and vote on legislation needed to implement the agreements expeditiously, with limited debate and no amendment.

Congress adopted the fast-track authority to assure U.S. trade partners that Congress would promptly consider legislation to implement trade agreements, ". . . while at the same time preserving the constitutional powers vested in the Congress . . ."[4] Many Members considered the negotiating authority for nontariff barriers crucial to the success of future negotiations in the GATT. Since previous negotiations in the GATT had succeeded in dramatically reducing tariffs, most policymakers thought that the use of nontariff measures to protect domestic producers posed the major remaining impediment to an open world trading system. To negotiate effectively on such matters, the President needed to assure U.S. trading partners that any agreements reached would be considered by Congress. At the same time, since a reduction of nontariff barriers would require changes in U.S. law, most Members were reluctant to delegate open-ended authority to the President to implement such trade agreements. Fast-track authority proved to be critically important to successfully negotiating and implementing the seventh round (the Tokyo Round) of GATT negotiations which took place from 1973 to 1979; the Round resulted in significant tariff cuts and major agreements on nontariff barriers.

When the Reagan Administration requested new fast-track authority to conduct a comprehensive new round—the Uruguay Round—of GATT negotiations,[5] Congress reconsidered the conditions under which such authority should be delegated. Congress passed the comprehensive Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418), which included a new negotiating authority and further redefined the roles of Congress and the President in negotiating trade agreements. The 1988 Act required the U.S. Trade Representative (USTR) to submit an annual statement to the House Committee on Ways and Means and the Senate Finance Committee that sets forth trade policy objectives and priorities, actions and legislation to achieve them, and progress made toward their accomplishment. The USTR was directed to consult with and seek advice from the existing congressional advisers on trade policy

---

[4] U.S. Congress. Senate. Committee on Finance. *Trade Reform Act of 1974.* Senate Report No. 93-1298, 93d Congress, 2d session. Washington, U.S. Govt. Print. Off., November 26, 1974. p. 22.

[5] Negotiating authority had been extended by the Trade Agreements Act of 1979 until January 3, 1988, when it expired. A new negotiating authority with fast-track implementation procedures was considered by most policymakers to be essential to the successful completion of the Uruguay Round, which had begun in 1986.

(five Members each from the Ways and Means and the Finance Committees) and additional special congressional advisers on specific policy matters. Members of Congress are also accredited as official advisers to U.S. delegations to trade conferences, meetings and negotiations.

The Act gave the Congress important new leverage to ensure that the executive branch consults adequately during trade negotiations. While it extended the President's authority to enter agreements on tariff reductions and to proclaim tariff cuts without going back to Congress, it gave the Congress new clout on the more important nontariff agreements. It authorized fast-track congressional approval of agreements reached by May 31, 1991, and provided for extension of the fast-track authority for two years, unless either the Senate or House passed a disapproval resolution by that date because of insufficient progress in the negotiations. Also, for the first time, the Act provided for congressional withdrawal of fast-track procedures. Congress could withdraw fast-track authority if the Senate Finance and House Ways and Means and Rules Committees report, and both House and Senate separately pass, disapproval resolutions because the President failed or refused to consult with Congress on trade negotiations or trade agreements.

FAST-TRACK AND FREE TRADE AGREEMENTS

Beginning with the 1974 Trade Act, Congress continually prodded the executive branch to explore special trading arrangements, such as free trade agreements, with certain trading partners as an alternative or complement to multilateral negotiations. The 1974 Act directed the President to enter into bilateral trade agreements if he determined that such agreements would promote the economic interests of the United States. Another provision of the 1974 Act expressed the sense of Congress that the United States should enter into a trade agreement with Canada to establish a free trade area. The Senate Finance Committee added the provision on Canada on the grounds that "the economies of the two nations are interdependent, and conditions necessary for the establishment of a mutually beneficial free trade area are clearly present."[6] The Trade Agreements Act of 1979 (P.L. 96-39) amended the provision to require the President to study the desirability of entering into trade agreements with other countries in the northern portion of the Western Hemisphere.

The Trade and Tariff Act of 1984 (P.L. 98-573) authorized the President to enter into a bilateral trade agreement with Israel to be implemented under fast-track procedures. The provision followed a 1981 proposal from the Israeli government and a 1983 agreement between President Reagan and Israeli Prime Minister Shamir to proceed with negotiations on a free trade area. The U.S. and Israeli governments signed an agreement establishing a free trade area in April 1985, and the agreement was implemented later that year by the United States-Israel Free Trade Area Implementation Act of 1985.

---

[6] U.S. Congress. Senate. Committee on Finance. *Trade Reform Act of 1974.* Senate Report No. 93-1298, 93d Congress, 2d session. Washington, U.S. Govt. Print. Off., 1974. p. 235.

The 1984 Act also authorized fast-track approval procedures for free trade agreements negotiated with other countries, provided the foreign government requested the negotiation, the President adequately consulted with Congress, and neither the House Ways and Means nor the Senate Finance Committee disapproved the negotiation of such an agreement. In September 1985, Prime Minister Brian Mulroney of Canada announced that he would seek to negotiate a free trade agreement with the United States. He and President Reagan directed their trade officials to undertake negotiations on such an agreement, and, in January 1988, the two governments signed the agreement. It was implemented by the United States-Canada Free-Trade Agreement Implementation Act of 1988 (P.L. 100-449).

In mid-1990, after President Salinas of Mexico requested negotiations on a U.S.-Mexico free trade agreement, President Bush notified Congress that he intended to pursue such an agreement. Subsequently, the U.S., Mexican, and Canadian governments announced that Canada would join the negotiations on a North American Free Trade Agreement (NAFTA). NAFTA was signed in December 1992 and implemented by the North American Free Trade Agreement Implementation Act (P.L. 103-182).

THE FAST-TRACK DEBATE IN THE 102D CONGRESS

In 1991, the Bush Administration requested an extension of fast-track authority to 1993, as provided by the Omnibus Trade Act of 1988, to complete the negotiations on NAFTA and the Uruguay Round. Soon thereafter, resolutions of disapproval were introduced in the House and Senate. The resolutions initiated the most thorough congressional debate of fast-track authority since its inception in 1974.[7] The focus of the debate was NAFTA. In particular, there was widespread concern about signing a free trade agreement with a neighboring country with much lower wages, very different labor standards, and lower environmental standards. Opponents maintained that the agreement would have adverse effects on U.S. employment, wages, and environmental standards.

Some Members expressed a more general concern that fast-track authority constituted too great a delegation of authority to the Executive. Many thought that, with the expansion of trade negotiations to cover new areas, Congress needed to reserve the power to debate thoroughly and make amendments to new agreements. They were particularly concerned about the kinds of changes in U.S. laws and regulations that the NAFTA might require. Some Members accepted the argument that amendments to multilateral agreements, in which concessions must be balanced among over 100 countries, might be impractical. They maintained, however, that amendments to the NAFTA, which involves only three trading partners, could easily be accommodated in further negotiations.

---

[7] For more detailed discussion of the debate, see U.S. Library of Congress. Congressional Research Service. *Trade Negotiating Authority: The 1991 Debate on Extension*. Report No. 92-592 E, by Lenore Sek. Washington, 1992.

Supporters of fast-track authority maintained that it was necessary for effective trade negotiations. Without fast-track authority, they argued, the Administration would have little credibility in trade negotiations. Supporters also argued that labor and environmental issues were not trade issues and should be dealt with in separate negotiations. Some Members were reassured by an action plan issued by the Bush Administration to address labor and environmental concerns. Supporters of fast-track also noted that, under provisions of the Omnibus Trade Act, it could be revoked if the Administration did not adequately consult with Congress.

In May 1991, both Houses allowed an extension by voting against disapproval resolutions. The House also passed H. Res. 146, which conditioned the House's support of NAFTA on including labor and environmental issues in the negotiations. The resolution made reference to a commitment by President Bush ". . . to address issues relating to environmental protection, health and safety standards, labor and industry adjustment (including worker adjustment assistance), and worker rights. . ."[8] Moreover, H. Res. 146 stated that fast-track procedures were enacted as an exercise of the rulemaking power of the House and Senate, "with the full recognition of the right of either House to change the rules (so far as relating to the procedures of that House) at any time . . ."[9]

During the debate, there was little controversy about the ongoing Uruguay Round negotiations. Similarly, when the Clinton Administration requested an additional six-month extension of fast-track authority to complete the Uruguay Round, there was little dissent. P.L. 103-49 enacted July 2, 1993, extended to April 16, 1994, the period during which the President could conclude the agreement and have it considered under fast-track procedures.

ISSUES FOR THE 104TH CONGRESS

In August 1994, the Clinton Administration proposed that an extension of fast-track authority for future trade agreements be included in the implementing legislation for the Uruguay Round. The proposal encountered considerable opposition, particularly to the suggestion that future trade negotiations should encompass labor and environmental issues, and was subsequently withdrawn. Administration spokespersons and congressional leaders indicated that fast-track negotiating authority would be taken up in the 104th Congress. Congress is likely to consider both legislative procedures for fast-track authority and the goals of future U.S. trade negotiations.

---

[8] *Congressional Record*, May 23, 1991 p H3589

[9] Ibid

The fundamental procedural issue is how much discretionary authority should be extended to the executive branch: fast-track legislation could be structured as a broad or very narrow delegation of authority. Related procedural matters include issues about the duration of the new authority, the requirements for consultation and reporting during the negotiations, the inclusion of peripheral matters (such as budgetary questions) in fast-track legislation, and the conditions under which Congress might revoke the authority.

Consideration of fast-track authority is also likely to include a number of issues related to the goals of future negotiations. Should they include new areas, such as environmental and labor issues, or should they be limited to traditional trade issues? Should the new authority be extended to multilateral trade negotiations in the WTO, or should it be limited to regional issues, such as proposals to negotiate an expansion of NAFTA to Chile and other countries in the Western Hemisphere? Should fast-track authority be extended to proposed future agreements, such as a possible Asia-Pacific free trade agreement?

THE GATT AND THE WTO[*]

The General Agreement on Tariffs and Trade (GATT) provides a framework of principles to govern international trade, a forum for negotiating trade issues, and procedures to settle disputes among nations. Twenty-three countries signed the original agreement, which became effective in January 1948. As of December 8, 1994, the 125 member countries[10] accounted for over 90 percent of the world's merchandise trade. About two-thirds of the members are developing countries.

An important motivation for the GATT in the immediate postwar period was to avoid a repetition of the trade restrictions of the early 1930s. The passage of the Tariff Act of 1930 (more widely known as the Smoot-Hawley Tariff) raised tariffs to an all-time high, amid strong protectionist pressures. Within two years, 25 nations retaliated by raising tariffs in an attempt to protect their own industries. Other measures, such as competitive currency depreciations and quotas, followed. Many believe that growing trade restrictions exacerbated the depth and duration of the 1930s depression, worsened political relations among countries, and contributed to the growing nationalism of the decade.

Although GATT negotiations to reduce tariffs began in 1946, the GATT was not intended to be an organization. Rather, it was assumed that the GATT would operate under the umbrella of the proposed International Trade Organization (ITO), which was being negotiated at the same time. Although negotiations for the ITO were completed in 1948, the U.S. Congress never approved it.[11] The GATT operated as the only multilateral instrument governing international trade until the World Trade Organization went into effect January 1, 1995.

MAJOR GATT PRINCIPLES

Non-discrimination is the most important principle underlying the GATT. The most-favored nation (MFN) principle, in Article I of the GATT, requires each member country to grant each other member country treatment at least as favorable as it grants to its most favored trade partner. Thus, *a country cannot discriminate among countries* in applying tariffs or charges, unless an exemption is allowed. One of several exceptions to the MFN clause is Article XXIV, which permits regional trading arrangements as long as specified criteria are fulfilled.

---

[*] By Arlene Wilson, Economics Division, CRS

[10] Technically, participants in the GATT were "contracting parties," but the term "member" is often used, and will be used here.

[11] The GATT was negotiated under authority granted to the President in the Reciprocal Trade Agreements Act of 1934 and thus did not require congressional approval. See p. 3 above.

The national treatment provision, in Article III, obligates *each country not to discriminate between domestic and foreign products*. Once an imported product has entered a country, the product must be treated no less favorably than a "like" product domestically produced. In other words, tax and regulatory treatment of the imported product must be the same as the domestic product.

Quotas are generally prohibited by the GATT since they directly limit imports and can offset tariff reductions. Where protection is necessary, tariffs, which allow price changes to influence trade and are more transparent than quotas, are considered preferable. The GATT allows some exceptions, however. For example, quotas are permitted under some circumstances to protect a country's balance of payments.

Other GATT rules help to provide a more stable and predictable basis for trade. Tariffs are "bound" at rates negotiated among the GATT members. This means that, unless bound tariffs are renegotiated, a country that raises tariffs above the bound rate will be required to provide compensation. Antidumping and countervailing duties are permitted if dumping or subsidies exist and can be shown to be injuring a domestic industry. A safeguard (or escape clause) provision allows the imposition of duties if imports are found to be injuring a domestic industry. Rules are provided for customs valuation, marks of origin, and state trading, among others.

The GATT's dispute settlement procedures are aimed at reducing trade conflicts. If bilateral consultations, the first step in resolving disputes, are unsuccessful, a GATT panel, consisting of three experts from countries not involved in the dispute, can be formed. After evaluating the dispute in relation to the GATT principles, the panel issues a report. Prior to the Uruguay Round, the panel report could only be adopted by consensus, allowing one country to block it. If adopted, a country is required to implement its recommendations, or face possible retaliation.

Negotiations to reduce tariffs are the heart of the GATT. Including the first series of negotiations ("rounds") in 1946–47, there have been a total of eight negotiating rounds. The first five rounds focused almost exclusively on tariff reductions. By the end of the Tokyo Round (1973–79), the seventh round, the average tariff of industrial countries was 6.4 percent.

As tariffs fell, nontariff barriers such as subsidies, import licensing, and government procurement assumed increasing importance. Although the Kennedy Round (1964–67) addressed rules for using antidumping duties, the Tokyo Round was more successful at rule–making for nontariff barriers. Codes of conduct covering dumping, countervailing duties, government procurement, technical barriers to trade (standards), import licensing procedures, and customs valuation were negotiated, but applied only to those countries who signed them.

THE URUGUAY ROUND

The Uruguay Round began in 1986, and continued for a full seven years. The issues were more complex than in the past, and the negotiations involved many more countries, some with very different perspectives. Negotiations over agricultural policies were particularly lengthy and difficult.

Agreement was reached in December 1993, and the Uruguay Round Final Act was signed in Marrakesh, Morocco, on April 15, 1994. U.S. implementing legislation (P.L. 103–465) was signed into law December 8, 1994. The Agreement went into effect January 1, 1995. The key provisions in the Uruguay Round agreements, identified below and discussed in more detail later in this report, are likely to be the subjects of oversight hearings in the 104th Congress.

Highlights of the Agreement

As with all previous negotiations, tariff reductions played an important role. Tariffs of developed countries were reduced by an average of 38 percent to 3.9 percent. Most reductions would be effective after five years. Developed countries reduced tariffs to zero for a number of products. Importantly, the percentage of tariffs that are "bound" increased, especially for developing countries.

For the first time, agriculture, services, intellectual property rights, trade–related investment measures, and textiles and apparel trade are brought under the discipline of the GATT. The main achievements for these new areas were:

- *Agriculture*. Domestic and export subsidies are being reduced. Quotas and other trade restraints are replaced by tariffs, which will be reduced over a period of years. (See below, pp. 45–47.)

- *Textiles and Apparel*. Quotas under the existing Multifiber Arrangement are being phased out over 10 years. (See below, pp. 47–48.)

- *Services*. Principles for services trade and investment, such as MFN and national treatment, are established. Some specific market access commitments were achieved, but more are yet to be negotiated.

- *Trade–Related Investment Measures (TRIMS)*. Measures, such as requiring foreign firms to achieve a specified level of domestic content in their production or requiring that imports be balanced by exports, are being phased out.

- *Intellectual Property Rights*. Minimum standards of protection are established for intellectual property, including copyright, trademarks and patents. The countries agree to adhere to the Berne Convention, the major copyright treaty. (See below, pp. 55–58.)

Rules were clarified and expanded, and, in some cases tightened, for other issues which had already been part of the GATT. These include:

- *Antidumping.* Some antidumping procedures are changed, including improved rules for calculating dumping margins, and the imposition of a "sunset" provision on antidumping duties. (See below, pp. 38–40.)

- *Subsidies and Countervailing Duties.* In an important result, subsidies are (for the first time) defined and categorized as prohibited, actionable, or non-actionable. The rules for imposing countervailing duties are clarified and expanded. (See below, pp. 40–42.)

- *Safeguards.* The rules on safeguards are tightened and made more transparent. New voluntary restraint agreements (VRAs) are discouraged, and existing VRAs are being phased out. (See below, pp. 42–44.)

The Uruguay Round Agreement included two important institutional changes that are designed to improve the way the multilateral trading system functions. It established the World Trade Organization (WTO), a permanent entity, which came into effect January 1, 1995. As an umbrella organization, the WTO oversees all trade agreements negotiated under the GATT. It also administers the single dispute settlement procedure, (which applies to all the agreements) and periodically evaluates trade policies and practices of members.

The second institutional change is the strengthened dispute settlement procedure.[12] A new Dispute Settlement Body (DSB) is established under the WTO and will administer all dispute proceedings. Unlike in the past, a panel must be set up on request. Importantly, a panel report is automatically adopted unless a consensus decides otherwise, a reversal of the previous procedure where panel adoption required a consensus. If a panel report is not implemented, the DSB will automatically authorize retaliation, if requested, unless a consensus decides otherwise. Stricter time limits are applied throughout the dispute settlement process.

Evaluation of the Agreement

Several studies have estimated the economic effects of the Uruguay Round Agreement on the United States. Most estimates suggest small, but positive effects. U.S. GDP is expected to increase by about one percent when the Agreement is fully implemented. Arguably, however, the economic benefits will be considerably greater, since the studies do not adequately measure the elimination of nontariff barriers and gains from economies of scale and enhanced investment and competition.

---

[12] See also below pp. 51-53

At the same time, the Uruguay Round Agreement, like any international trade agreement, involves adjustment costs. Some workers lose jobs, while other workers gain jobs. Although there is no expected increase in overall unemployment, the adjustment for those who lose jobs may be painful, sometimes requiring occupational or geographic relocation. According to a study by Alan Deardorff, over the 10 years during which the Uruguay Round will be implemented, approximately 180,000 U.S. workers (0.2 percent of the labor force) will be adversely affected in any year, a small number relative to the size of the U.S. economy.[13]

From another perspective, the Uruguay Round Agreement continues the momentum toward multilateral trade liberalization. Developing countries were integrated into the trading system more than in the past. Although not all goals of either developed or developing countries were achieved, substantial progress was made in agriculture, subsidies, intellectual property rights, and textiles and apparel.

The establishment of the WTO places an international trade organization on a par with the International Monetary Fund and the World Bank, as had been envisioned in the late 1940s. As economies become more integrated, trade and monetary issues also become more interrelated. The WTO might facilitate joint discussion and resolution of problems that encompass both trade and finance. It also may encourage future trade negotiations, and, along with the improved dispute settlement procedure, reduce the potential for trade conflicts.

GATT AND WTO ISSUES FOR 104TH CONGRESS

The most immediate issue is the continuation of negotiations to liberalize services trade. Negotiations on specific market access commitments in financial services, basic telecommunications, and maritime transport services were not completed during the Uruguay Round, and are continuing. The dates for expected completion of the negotiations are: financial services by June 30, 1995, basic telecommunications by April 30, 1996, and maritime transportation by June 30, 1996. If, as expected, the financial services agreement being negotiated can be implemented without a change in law, no congressional action will be necessary. If any agreement does require a change in U.S. law, however, Congress will likely be asked to consider the use of the fast-track procedure.

---

[13] Deardorff, Alan V. Economic Effects of Quota and Tariff Reductions. In Collins, Susan M., and Barry P. Bosworth, ed. *The New GATT: Implications for the United States.* Washington, The Brookings Institution, 1994. See also: U.S. Library of Congress. Congressional Research Service. *A Reappraisal of the Economic Effects of the 1994 GATT Agreement.* Report No. 94-659 E, by Craig Elwell and Alfred Reifman. Washington, 1994. p. 5.

The Congress is expected to consider legislation to establish a WTO Dispute Settlement Review Commission. At the end of the congressional debate over the WTO in 1994, the Clinton Administration agreed to support a proposal by Senator Dole to establish such a Commission. S. 16, introduced January 4, 1995, would establish a Commission to review dispute settlement panel reports that were adverse to the United States. It establishes procedures for the United States to withdraw from the WTO if the Commission finds that three times within a five-year period the panel exceeded its authority or acted arbitrarily.

The interrelationship between trade and the environment was extensively debated during the latter part of the GATT negotiations. Although the Uruguay Round Agreement included no specific provisions on environment, the preamble to the WTO recognizes the importance of environmental issues. Moreover, a WTO Committee on Trade and the Environment has been established to study issues such as the use of trade measures to protect the environment or to enforce environmental agreements.

Labor standards and their relationship to international trade was an important issue for some during the GATT negotiations.[14] The Uruguay Round Agreement contained no provisions on labor standards, nor was a WTO committee to study labor issues established. P.L. 103-465 (the U.S. implementing legislation), however, requires the President to seek the establishment of a WTO working group to evaluate the relationship between labor rights and international trade. It also requires the President to report to the Congress by December 8, 1995, on the progress made in establishing the working group.

Although agreement was reached on trade-related investment issues in the Uruguay Round, liberalization of broad investment principles, such as the right of establishment and discriminatory treatment of foreigners, remains to be achieved. One possibility is that the WTO, perhaps along with the Organization for Economic Cooperation and Development or the World Bank (both of which have rules for some types of investments) will negotiate these issues at a later date. The Uruguay Round's TRIMs agreement provides that, within five years, additional provisions regarding investment or competition policy will be considered.

In competition policy, one of the main issues relates to market access. Private business practices, such as control over distribution channels or close relationships among affiliated firms, may effectively block sales by foreign firms. While the GATT has made progress on negotiating *government* policies which affect market access (such as technical standards, or government procurement policies), *private* practices are not covered by the GATT. Although still in the early stages, it is likely that private business practices may be the subject of study and negotiation in the WTO in the future.

---

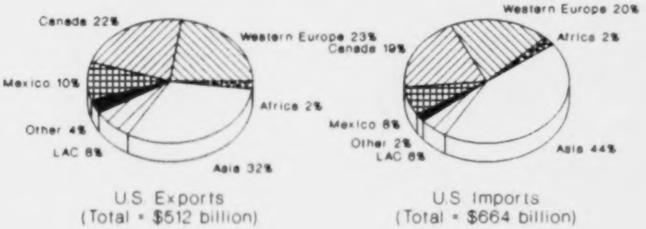
[14] Basic labor standards include freedom of association, the right to organize and bargain collectively, and restrictions on child labor.

REGIONAL AND BILATERAL TRADING RELATIONSHIPS

In considering fast-track legislation and in exercising oversight in trade policy, the 104th Congress will focus on regional and bilateral, as well as multilateral, trade agreements. In particular, proposals to extend NAFTA membership to Chile and other Latin American countries and the Administration's initiatives toward a regional free trade agreement in Asia and the Pacific may be central issues in the debate on fast-track legislation.

In the future, regional free trade agreements could affect trade with all major U.S. trading partners. If extended to cover the rest of Latin America, for example, NAFTA would cover over one-third of U.S. 1994 trade. (See figure 1.) An Asian-Pacific trade agreement would encompass much of U.S. trade with Asia, including the important trading relationships with Japan and China. U.S. trade with the European Union (EU), which accounted for 20 percent of U.S. exports and almost 17 percent of imports in 1994, is also likely to be affected. Some observers are concerned that the U.S. emphasis on regional free trade agreements could result in more adversarial trans-Atlantic trade relations. Others have suggested that the trend toward free trade agreements could include the EU in a North Atlantic free trade agreement.

FIGURE 1. 1994 Direction of U.S. Trade



LAC = Latin Amer/Caribbean except Mexico

Source: U.S. Department of Commerce.

In monitoring the results of the Uruguay Round and various bilateral trade agreements, Congress may focus on trade relations with Japan, China, and the EU. The three trading partners not only account for a large share of U.S. trade, they are also parties to some of the most contentious trade disputes with the United States.

NAFTA AND EXPANDING FREE TRADE WITH LATIN AMERICA[*]

The North American Free Trade Agreement took effect on January 1, 1994, extending and building on the bilateral agreement adopted by the United States and Canada five years earlier. NAFTA formalizes the trend toward regional trade liberalization among the United States, Canada, and Mexico and most preliminary assessments argued that economic efficiencies resulting from freer trade would produce positive net gains for all countries. Congress, on the whole, accepted this conclusion and, despite an impassioned debate, passed the implementing legislation (P.L. 103–182) by a relatively wide margin.

U.S.-Canada Trade

As each others' most important trading partners, the United States and Canada have moved increasingly toward greater economic cooperation and integration. These two countries have the largest bilateral trading relationship in the world. As seen in table 1, over the last decade, U.S.–Canada trade nearly doubled, with the United States incurring annual trade deficits.

TABLE 1. U.S. Merchandise Trade With Canada
(U.S. $ millions)

Year	U.S. Exports	U.S. Imports	Trade Balance	% Growth in U.S. Exports	% Growth in U.S. Imports
1983	43,345	52,130	-8,785		
1984	51,777	66,478	-14,701	19.5	27.5
1985	53,287	69,006	-15,719	2.9	3.8
1986	55,512	68,253	-12,741	4.2	-1.1
1987	59,814	71,085	-11,271	7.7	4.1
1988	71,622	81,298	-9,776	19.7	14.5
1989	78,809	87,953	-9,144	10.0	8.1
1990	83,674	91,380	-7,706	6.2	3.9
1991	85,150	91,064	-5,914	1.8	-0.3
1992	90,594	98,630	-8,036	6.4	8.3
1993	100,444	111,216	-10,772	10.9	12.8
1994	114,441	128,948	-14,507	13.9	15.9

Source: U.S. Department of Commerce.

The U.S.–Canada trade relationship has been, by and large, a relatively smooth process, in part because of the similarity between the two economic systems (as compared to Japan, for example.) Periodic trade disputes occur, but primarily over goods that account for a small percentage of bilateral trade. Nonetheless, these disputes can have a high profile and attract significant congressional attention such as those over softwood lumber, beer, and Canadian wheat subsidies. In part because of potential disputes, the Canada Free Trade Agreement (CFTA), in effect as of January 1, 1989, established a special binational dispute settlement mechanism for antidumping and countervailing duty cases. It also eliminated tariffs within ten years, set out an agreement for both countries to apply national treatment to each other in investment and services, and defined market opening measures for various products.

---

[*] By J. F. Hornbeck, Economics Division, CRS

NAFTA and its side agreements build on these features, expanding and clarifying some while addressing new issues such as intellectual property rights, land transportation, environmental protection, and labor issues. NAFTA, similarly to the CFTA, provides for the elimination of all tariffs within 15 years, clearer rules of origin regarding products made in North America, elimination of some barriers to services and investment, and procedures for review of antidumping and countervailing duty decisions.

U.S.-Mexico Trade

For U.S.-Mexico economic ties, NAFTA represents another step toward growing economic integration. Attention is now turning to assessing the Mexico-U.S. aspects of the agreement and contemplating the expansion of NAFTA to other Western Hemisphere countries. Many Members of Congress still have serious reservations about possible negative repercussions of NAFTA and will look carefully at the accession issue in light of recent severe economic problems in Mexico. NAFTA's role in precipitating the Mexican financial crisis may be marginal given the many other economic variables at work, particularly Mexico's macroeconomic decisions. Nonetheless, the potential for serious economic repercussions in Mexico may be a factor in congressional consideration of Chilean accession to NAFTA. These concerns, however, could be minimal if financial assistance to Mexico and the government of Mexico's new economic program meet with success.

Trends in bilateral trade between the United States and Mexico are of key interest to those parties attempting to evaluate the effects of NAFTA. The data necessary to make a meaningful analysis, however, cover a very short period, so any assessment of NAFTA's effect on trade should be considered preliminary at best. It is important to realize that prior to NAFTA, U.S.-Mexico trade was growing briskly (see table 2.) Although some of this growth may be attributed to anticipation of NAFTA's passage, there were clearly other factors at work.

Based on dollar value of trade, Mexico remains the third largest U.S. single-country trading partner behind Canada and Japan. Mexico accounted for 10 percent of U.S. exports in 1994 and 8 percent of imports. By comparison, the United States is by far Mexico's largest trading partner, accounting for 78 percent of Mexican exports and 70 percent of imports in the 1993. Bilateral trade grew by 23 percent in 1994, the first year after passage of NAFTA, significantly higher than the average annual growth (13.3 percent) in total trade since 1983.

TABLE 2. U.S. Merchandise Trade With Mexico
(U.S. $ millions)

Year	U.S. Exports	U.S. Imports	Trade Balance	% Growth in U.S. Exports	% Growth in U.S. Imports
1983	9,082	16,776	-7,694		
1984	11,992	18,020	-6,028	32.0	7.4
1985	13,635	19,132	-5,497	13.7	6.2
1986	12,392	17,302	-4,910	-9.1	-9.6
1987	14,582	20,271	-5,689	17.7	17.2
1988	20,628	23,260	-2,632	41.5	14.7
1989	24,982	27,162	-2,180	21.1	16.8
1990	28,279	30,157	-1,878	13.2	11.0
1991	33,277	31,130	2,147	17.7	3.2
1992	40,592	35,211	5,381	22.0	13.1
1993	41,581	39,917	1,664	2.4	13.4
1994	50,840	49,493	1,347	22.3	24.0

Source: U.S. Department of Commerce.

Since 1983, annual growth rates of U.S. exports to Mexico exceeded that of imports from Mexico except for 1993 and 1994. U.S. exports rose over 450 percent from $9.1 billion in 1983 to an estimated $50.8 billion in 1994. U.S. imports from Mexico grew from $16.8 billion to an estimated $49.4 billion by 1994, or 195 percent. As implied by these numbers and shown in table 2, the U.S. trade balance with Mexico changed from deficits between 1983 and 1990 to a surplus in 1991 and thereafter.

In analyzing the determinants of U.S.–Mexico trade growth, it is difficult to isolate the effects of NAFTA. Although NAFTA solidified trade relationships that were already in the making, it represents only one of many steps in the Mexican trade liberalization process that includes joining GATT in 1986, becoming a member of the OECD in 1994, and unilaterally reducing tariffs, quotas, and other barriers to trade. NAFTA, then, reinforced an already established trend in bilateral trade growth based on a series of Mexican trade policy changes and low U.S. tariffs. Further, because many tariffs are being phased out over 5–15 years, much of the 1994 trade growth might have occurred irrespective of NAFTA's marginal reduction in tariffs in the first year.

Factors other than NAFTA (and trade policy in general) affected trade patterns between the United States and Mexico in 1994. Both economies experienced solid economic growth in that year, increasing demand for each other's exports. In 1994, Mexico's economy grew at a rate of approximately 3.1 percent, representing a recovery from the 1993 recession. Trends in U.S. export growth to Mexico mirror growth trends of the Mexican economy. Exports expanded by 22.3 percent in 1994, up from a relatively low growth rate of 2.4 percent in 1993. By comparison, the U.S. economy expanded at a 4–percent rate in 1994 and as Mexico's primary trading partner, contributed extensively to Mexico's export growth.

Exchange rate policies also played an important role in determining U.S.-Mexico trade patterns in 1994. Through most of 1994, the peso appreciated in real terms, making U.S. goods relatively cheaper, further encouraging growth in U.S. exports to Mexico that may have been affected by NAFTA. Mexico's decision to devalue the peso in December 1994 will have the reverse effect. The value of U.S. exports to Mexico in 1995 are expected to fall and the value of Mexican imports to the U.S. are expected to rise, likely reversing the U.S. bilateral trade balance to a deficit for the year. This is, however, the expected effect of the devaluation, which is intended to reduce Mexico's large current account balance.

It is important to emphasize that NAFTA (and trade policy in general) is only one influence on trade patterns, and at times its effects may be easily swamped by other factors such as macroeconomic policy and exchange rate volatility. A cautious assessment of NAFTA suggests that it played a positive, but relatively minor, role in determining U.S.-Mexico trade patterns for 1994.

A Free Trade Area of the Americas

At the December 1994 Summit of the Americas, 34 countries, including the United States, committed to proceeding with a Free Trade Area of the Americas (FTAA). In looking south of Mexico for expanded trade opportunities, an understanding of the current trade relationship between the U.S. and Latin America demonstrates that much has changed in these economies, yet many challenging issues remain to be resolved.

Two noticeable trends reflect both recent and longer term developments in merchandise trade between the United States and Latin American/Caribbean (LAC) countries, a term defined to exclude Mexico's trade data. First, as shown in table 3, total trade between the United States and Latin America has grown in recent years and second, as a percentage of total trade with the United States, Latin America remains a small regional partner, particularly if trade with Mexico is excluded. To appreciate the sharp rise in U.S. trade with Latin America requires an understanding of the evolving U.S. export market in general, as well as the dramatic economic changes that have taken place in the region over the past decade. In the United States two trends dominate. First, since the mid-1980s, U.S. exports have grown as a percent of GDP. Second, as a percentage of total exports, those to developing countries, including Latin America, have increased.

In Latin America, trade growth results from deliberate policy changes made to address long-term economic problems. Through a combination of economic policy reforms, many Latin American economies transitioned toward a more open posture with the world and the region. Three specific economic trends paved the way for increased trade between Latin America and the United States: unilateral reductions in Latin American trade barriers that accompanied policy shifts away from the import substitution growth model; greater privatization of formerly state operated enterprises; and tighter macroeconomic policies focusing on noninflationary growth.

TABLE 3. Trends in U.S. Trade with Latin America and the Caribbean, 1987–1994 ($ billions)

Country	1988	1990	1992	1994	% Change 1988–1994
		U.S. Exports			
Brazil	4.3	5.1	5.8	8.1	88.4
Venezuela	4.6	3.1	5.4	4.0	-13.0
Argentina	1.1	1.2	3.2	4.5	309.1
Colombia	1.1	1.7	2.5	4.1	272.7
Chile	1.1	1.7	2.5	2.8	154.5
Dominican Rep	1.4	1.7	2.1	2.8	100.0
Costa Rica	0.7	1.0	1.4	1.8	157.1
Guatemala	0.6	0.8	1.2	1.4	133.3
Other	7.7	8.8	10.6	10.6	37.7
Total Except Mexico	22.6	25.1	34.7	40.1	77.4
Mexico	20.6	28.3	40.6	50.1	143.2
Total	43.2	53.4	75.3	90.2	108.8
		U.S. Imports			
Brazil	9.3	7.9	7.6	8.7	-6.5
Venezuela	5.2	9.5	8.2	8.4	61.5
Argentina	1.4	1.5	1.3	1.7	21.4
Colombia	2.2	3.2	2.8	3.2	45.5
Chile	1.2	1.3	1.4	1.8	50.0
Dominican Rep	1.4	1.8	2.4	3.1	121.4
Costa Rica	0.8	1.0	1.4	1.6	100.0
Guatemala	0.4	0.8	1.1	1.2	200.0
Other	3.7	6.7	7.3	8.3	124.3
Total Except Mexico	27.8	33.7	33.5	38.0	36.7
Mexico	23.3	30.2	35.2	49.5	112.4
Total	51.1	63.9	68.7	87.5	71.2

Note: Does not include Cuba.

Source: U.S. Department of Commerce.

Latin American policy reforms and resulting improved economic stability encouraged a renewed strengthening of economic ties between the region and the United States. U.S. merchandise exports to all Latin American and Caribbean countries, excluding Mexico, grew by 77 percent between 1988 and 1994. Merchandise imports from LAC countries, excluding Mexico, grew more slowly than exports at 37 percent. Indicative of these numbers, and those shown in figure 1, is, that in addition to steady growth in both imports and exports, the United States has been running a slight trade surplus with Latin America, reversing the trade deficit trend of the early 1980s.

Like Mexico, the U.S. market is considerably more important for Latin American countries than the Latin American markets are for the United States, but this varies among countries. The United States is the leading trading partner of most South American countries including 22 percent of Brazil's trade, 47 percent of Venezuela's, 41 percent of Colombia's, 34 percent of Argentina's, and 19 percent of Chile's. Although merchandise trade with LAC countries has grown dramatically, it still represents only a small fraction of total world trade with the U.S. As shown in figure 1, U.S. trade with LAC countries in 1994, excluding Mexico, represented only 8 percent of total U.S. exports to the world (Mexico accounted for another 10 percent of U.S. exports) and only 6 percent of U.S. imports (Mexico represented another 8 percent of U.S. imports.)

Three major policy issues dominate the discussion of expanding free trade agreements to the Western Hemisphere. First is the accession of Chile to NAFTA, of which a formal offer was made by the NAFTA partners during the Summit of the Americas. The Chile issue will likely be watched carefully because of its precedent-setting potential for defining expanding free trade agreements to Latin America, both in terms of using NAFTA as the model, and determining whether fast-track negotiations will be used. President Frei of Chile will meet with President Clinton in April 1995, and an announcement of formal negotiations is expected in May.

Second, the Caribbean Basin trade parity issue reflects concerns by some Members of Congress and the Administration that many of these countries, which already enjoyed special trade arrangements with the United States, were damaged by trade diversion from Mexico because of NAFTA.[15] Third, the implications for expanding free trade to many or all countries in Latin America, although an admittedly long-term goal, will likely be explored to assess potential costs and benefits to the United States, particularly in light of the recent financial problems in Mexico. The prospect for negotiations on such free trade expansion will apparently raise many of the issues that were debated during consideration of NAFTA, including the possibility of side agreements dealing with labor, environment, and other issues. Ministerial meetings on the FTAA are scheduled for June 1995 in Denver and for March 1996 in Latin America.

---

[15] See below, pp. 35-37

APEC AND FREE TRADE IN THE ASIA PACIFIC[*]

In November 1994, President Clinton and the leaders of the Asia Pacific Economic Cooperation (APEC) forum met in Bogor, Indonesia, and signed a declaration setting a goal to establish free and open trade in the Asia Pacific. Concrete details on this free trade area are yet to be worked out, but the goal is for the industrialized economies in APEC to achieve free and open trade by the year 2010 and the rest no later than the year 2020.

APEC is a council of eighteen nations/states bordering on the Pacific Ocean. It includes the United States, Canada, Mexico, Japan, China, Taiwan, Hong Kong, South Korea, ASEAN (Indonesia, Malaysia, Singapore, Thailand, The Philippines, and Brunei), Australia, New Zealand, Chile, and Papua New Guinea. This Asia Pacific region contains nearly half the Earth's population and more than half the world's production.

In 1994, the United States ran a merchandise trade deficit with the Asian APEC nations of nearly $120 billion or about three-fourths of the total U.S. trade deficit. This included a deficit of $65 billion with Japan, $30 billion with China, and $10 billion with Taiwan. Many policymakers consider the U.S. trade deficit to be a problem, and therefore a problem with Asia. While these trade deficits are not necessarily caused by import barriers, U.S. exporters have much to gain from the lowering of trade barriers there. Import duties on automobiles in Southeast Asia, for example, range between 30 and 60 percent compared to 2.5 percent in the United States. The Asian APEC economies also are some of the fastest growing in the world. They represent multibillion dollar markets for U.S. exporters.

APEC symbolizes post-Cold War relationships in which trade and investment have become an important pillar in the foundation underlying world peace and security. Trade has become a catalyst for change in countries with authoritarian governments or isolated markets. APEC promotes cooperation and trade among the nations of the Pacific Basin, encourages open trading systems, keeps the United States engaged in the region, and provides the Asia Pacific with a counterweight to the European Union. In response to APEC, the European Union has floated the idea of a trans-Atlantic free-trade agreement.

APEC began as a consultative forum at the ministerial level, but in 1993, President Clinton raised its profile by adding a leaders' summit. At the November 1994 meetings in Indonesia, the APEC leaders signed a declaration committing their countries to a goal of free trade in APEC by the year 2010 for the industrialized nations (U.S., Japan, Canada, Singapore, Australia, New Zealand, and possibly others) and by the year 2020 for the rest. The extra ten years were allowed the developing nations primarily at the insistence of China and Malaysia. Trade liberalization in APEC is to be on a reciprocal basis to prevent "free riders."

---

[*] By Dick K. Nanto, Economics Division, CRS

The free trade declaration is a consensus, not legal, document. A blueprint to achieve this goal is yet to be devised. Like any declaration setting a lofty goal, the difficulties lie in the details. Pressures for protection from imports are strong in many of the nations as is criticism of trade practices by certain members.

In November 1995, the APEC ministerial and leaders' meetings will be held in Osaka, Japan. By then, APEC officials intend to develop a detailed action agenda or blueprint for reaching the goal of regional free trade. This is likely to include measures to lower tariff and non-tariff barriers, simplify customs procedures, harmonize standards, and identify other obstacles to trade.

The task of getting such a diverse group of countries to agree to the scope and timetable leading to a free trade area will undoubtedly be difficult. For example, considering the debate over NAFTA in the United States, how would the American people respond to a free trade area that includes Japan, China, and Korea? Japan, itself, has indicated that it is reluctant to go much beyond the agricultural market liberalization agreed to under the Uruguay Round of GATT negotiations. There is a possibility that the goal is so far-reaching that it may take most of the next fifteen years just for an agreement to be reached.

The parties could devise an alternative strategy to continue to develop the blueprint leading to free trade among APEC members, but concurrently to require that each member negotiate a free-trade area with at least one other member every few years while the blueprint is being developed and implemented. Such bilateral pacts are much easier to manage and could be building blocks leading to liberalized trade in APEC by the deadline. The United States is already committed to starting negotiations with Chile to join NAFTA, and the ASEAN members are attempting to establish a free trade area among themselves.

An advantage of this approach is that it may compel countries like Japan, South Korea, Taiwan, and China, who currently do not belong to any free trade areas but have economies with sizable trade barriers, to engage in market-opening negotiations among themselves. If, for example, South Korea were to negotiate a free trade area with Japan, the United States could step back and let those two nations confront each other over their respective trade barriers. The United States also might be able to observe where both country's real trade barriers lie. The disadvantage of this approach is that it could create trading blocs in Asia that could eventually discriminate against U.S. exporters. Under the rules of the WTO, however, free trade areas can only lower trade barriers among member nations and not raise them against outsiders.

JAPAN-U.S. TRADE RELATIONS[*]

The United States and Japan are closely tied economically. In spite of these ties, or perhaps because of them, U.S.-Japan trade relations have generated much friction. The friction has been caused in part by the prevailing U.S. trade deficit with Japan but also by the difficulty U.S. companies have in penetrating the Japanese market.

U.S.-Japan Trade

Japan ranks second only to Canada as the largest single-country U.S. export market. It is the leading market for American agricultural exports, such as corn and meat; for U.S. crude materials, such as wood; and for U.S.-produced aircraft. Japan is also the second largest single-country supplier of a list of U.S. imports, headed by cars and followed by consumer electronics, telecommunications equipment, and computers. The United States ranks as Japan's number one export market and import supplier.

For many years, the relationship has been clouded by the prevailing U.S. trade deficit with Japan. Table 4 below shows that U.S. trade deficits with Japan hit $57 billion in 1987. They declined from 1987 to 1990 as the effects of dollar depreciation took hold. During that period, U.S. exports to Japan soared while U.S. imports from Japan stagnated or grew modestly.

TABLE 4. U.S. Trade with Japan, 1984–1994
($ billions)

Year	Exports	Imports	Balances	% Change Exports	% Change Imports
1984	23.6	57.1	-33.6	7.8	38.6
1985	22.6	68.8	-46.5	-4.2	20.5
1986	26.9	81.9	-55.0	19.0	19.0
1987	27.8	84.6	-56.8	3.3	3.3
1988	37.4	89.8	-52.4	34.5	6.1
1989	44.5	93.5	-49.0	19.0	4.1
1990	48.6	89.7	-41.1	9.2	-4.1
1991	48.1	92.3	-44.2	-1.0	2.9
1992	47.8	97.2	-49.4	-0.6	5.3
1993	47.9	107.3	-59.3	0.2	10.4
1994	53.5	119.1	-65.7	11.7	11.0

Source: U.S. Department of Commerce. Bureau of the Census. TradeNet. Exports are f.a.s. basis and imports are valued on a customs basis.

---

[*] By William H. Cooper, Economics Division, CRS

Recently, the trade deficit has grown as the United States has experienced economic recovery and growth while Japan has been in recession. In the long run, many economists expect the deficit to shrink once again as Japan emerges from its recession and the effects of a stronger yen in terms of the dollar take hold.

Market Access Issues

U.S. trade policy has focused primarily on the accessibility of Japanese markets to American exports. American companies and U.S. policymakers have cited a range of Japanese customs barriers, technical specifications, government regulations, and business practices, as barriers to U.S. exports. Over time, the United States has pressured Japan to open its markets to various types of goods and services — agricultural products, footwear, semiconductor chips, computers, construction services, and insurance. In most cases, agreements have emerged from these negotiations, but just as often, disputes over the implementation of the agreements or the emergence of other problems have led to new negotiations in the same areas. In addition, problems in new areas have also required the attention of both countries. U.S. Administrations have conducted various sets of negotiations, such as, the Reagan Administration's Market-Oriented Sector-Selective (MOSS) talks and the Bush Administration's Structural Impediments Initiative (SII).

The Clinton Administration's "United States-Japan Framework for a New Economic Partnership," agreed to by Japan in July 1993, is the latest set. The framework provides a "set of rules" for negotiations in a broad range of issues that are divided into five "baskets" or categories: (1) government procurement; (2) regulatory reform and competitiveness; (3) trade in other major sectors, such as autos and auto parts; (4) economic harmonization; and (5) implementing existing agreements and measures. At U.S. insistence, the framework stipulates that "objective criteria" in the form of "qualitative" and "quantitative" factors will be used to evaluate the success of the agreements and that the U.S. President and the Japanese Prime Minister are to meet twice a year to discuss the results of the framework negotiations.

As of early 1995, the United States achieved agreements with Japan on government procurement of medical equipment and technology and telecommunications equipment and technology and on market access in Japanese domestic insurance market, all of which had been designated "priority issues" under the framework. It also achieved agreements from Japan on flat glass, intellectual property rights protection, and financial services. The priority issue of market access in autos and auto parts remains without an agreement.

The question of "objective criteria" has been a major stumbling block in most of the negotiations. The United States insisted on indicators that would demonstrate whether an agreement led to measurable results. Japan in turn strongly resisted, insisting that the United States was advocating "managed trade" with numerical targets. Most of the agreements reached to date provide for the use of various qualitative and quantitative factors that will be used in combination to evaluate the implementation of the agreements.

The framework negotiations have entered a new and perhaps more complex stage. The United States is encouraging Japan to reduce government regulations that have inhibited imports, to improve the climate in Japan for foreign direct investment, and to address Japanese private business practices that block imports, such as those that occur within business conglomerates (*keiretsu*). These issues pertain to longstanding business practices and relationships among Japanese government ministries that may prove to be difficult to change.

CHINA-U.S. TRADE RELATIONS*

Economic and trade reforms have helped make China one of the world's fastest growing economies, leading many analysts to predict that China will become an increasingly important market for many U.S. products. However, China's alleged unfair trade practices and its growing trade surplus with the United States have led to trade frictions between the two nations.

China's Economy and Trade with the United States

In recent years, China has become one of the world's fastest growing economies. In 1994, its GDP grew by an estimated 10.9 percent, and it is expected to grow at an average annual rate of 8 percent over the next 10 years. The rapid growth of China's economy is seen by many analysts as offering potentially large opportunities for many U.S. industries. The Chinese government has announced that it intends to spend over $400 billion on imports over the next few years to upgrade and modernize the economy. Infrastructure development, in particular has been made a major priority, and the Chinese government has announced that foreign firms will be allowed to participate in a wide variety of projects. Priority development projects include energy, transportation, and telecommunications.

U.S. trade with China rose rapidly after the two nations established diplomatic relations and extended mutual most-favored-nation (MFN) benefits beginning in 1980. Total trade (exports plus imports) between the two nations rose from $4.8 billion in 1980 to $48.1 billion in 1994, making China the 6th largest U.S. trading partner. Over the past few years, the U.S. trade deficit with China has grown at a faster rate than that with any other major U.S. trading partner. In 1994, the U.S. trade deficit with China grew to $29.5 billion, making it the second largest U.S. bilateral trade imbalance after Japan (see table 5).

---

* By Wayne M. Morrison, Economics Division, CRS

TABLE 5. U.S. Trade with China: 1984–1994
Totals and Percent Change Over Previous Year
($Millions)

Year	U.S. Exports	U.S. Imports	U.S. Trade Balance	% Growth in U.S. Exports	% Growth in U.S. Imports
1984	3,004	3,065	-61	--	--
1985	3,852	3,862	-10	28.2	26.0
1986	3,105	4,771	-1,666	-19.4	23.5
1987	3,488	6,293	-2,805	12.3	31.9
1988	5,033	8,512	-3,479	44.3	35.3
1989	5,807	11,989	-6,181	15.4	40.8
1990	4,807	15,224	-10,417	-17.2	27.0
1991	6,278	18,976	-12,698	30.6	24.6
1992	7,418	25,727	-18,309	18.2	35.6
1993	8,767	31,535	-22,768	18.2	22.6
1994	9,287	38,781	-29,494	5.9	23.0

Source: U.S. Department of Commerce. Bureau of the Census.

Major Issues in U.S. China Trade

Many trade analysts have attributed the growing U.S.–China trade deficit to a variety of Chinese restrictive trade practices, such as high tariffs, quotas, import license requirements, and discriminatory import regulations. Other trade issues of concern to the United States have included China's violation of U.S. intellectual property rights (IPR), transshipments of textiles to the United States in violation of U.S. textile quotas, and China's alleged use of forced labor to manufacture products exported to the United States. Over the past few years, the United States and China have reached agreements on many of these issues:

- On April 26, 1991, the United States Trade Representative (USTR) designated China under Special 301 for failing to provide adequate protection for U.S. intellectual property rights and initiated a Section 301 investigation. A memorandum of understanding (MOU) was reached on January 16, 1992. However, on June 30, 1994, the USTR again designated China under Special 301 for failing to enforce its IPR laws and for restricting market access of intellectual property-related products. On February 4, 1995, the USTR announced that sanctions would be imposed against China by February 26, 1995 unless a new agreement was reached. A preliminary agreement was subsequently signed on February 26, 1995 which pledges China to significantly improve its IPR enforcement regime and market access for U.S. products.

- On October 10, 1991, the USTR initiated a Section 301 investigation of four major Chinese trade barriers, including import prohibitions and quotas, restrictive import license requirements, restrictive standards and certification requirements for imports, and lack of transparency in Chinese trade laws. On October 10, 1992, the United States and China reached an MOU agreement on market access. China agreed to reduce several major trade barriers over the next five years.

- On August 7, 1992, the United States and China signed an MOU to ensure that products made by forced labor in China are not exported to the United States.

- On January 17, 1994, the United States and China reached an agreement on U.S. import quotas of Chinese textile and apparel products which would limit the growth in China's quota levels and establish mechanisms to deal with Chinese transshipments.

China's increasing trade surplus with the United States and unfair trade practices have become a focal point in the annual congressional debate over China's MFN status. Over the past few years, several Members of Congress have attempted to pass legislation terminating or conditioning China's MFN status.

On May 28, 1993, President Clinton issued an executive order continuing unconditional MFN status for China for an additional year, but placing certain human rights conditions on renewal of China's MFN status thereafter. On May 26, 1994, President Clinton announced a one-year extension of China's MFN status, though conceding that China had failed to make overall significant progress in human rights. In addition, President Clinton announced that he would not link human rights (other than freedom of emigration) considerations to next year's extension of China's MFN status. On August 9, 1994, legislation was defeated in the House that would have terminated or limited China's MFN status.

Some analysts have predicted that a termination of China's MFN status, or sanctions against U.S. imports of Chinese goods, would lead to higher prices for U.S. consumers on a wide variety of Chinese products. In addition, China would likely retaliate against major U.S. exports to China, such as aircraft, autos, specialized machinery, and telecommunications equipment. The Commerce Department has identified China as one of the top 10 foreign markets offering the largest export potential for U.S. firms. Many trade analysts warn that U.S. trade sanctions could lock U.S. firms out of future, potentially lucrative, Chinese markets.

While the U.S. delinking of human rights with China's MFN status has reduced trade tensions between the two countries, several bilateral issues remain:

- The U.S. trade deficit with China is likely to continue to rise sharply and could, in the near future, exceed the U.S. deficit with Japan.

- The United States continues to press China to implement fully the October 1992 MOU to substantially reduce major Chinese trade barriers. In addition, the United States is holding talks with China over its accession to the World Trade Organization (WTO). The United States has insisted that China make major reforms to its trade regime before it is allowed to become a member of the WTO, including making its trade regime more transparent, significantly reducing government support of domestic firms, and affording national treatment to foreign firms.

- Disputes may well arise in the future over China's implementation of the February 1995 IPR agreement as well as the pace and degree of market–opening measures.

The 104th Congress may consider influencing U.S.–China commercial relations. For example, legislation might be introduced to terminate China's MFN status, or condition it to commercial and/or non–commercial factors (such as human rights, weapons proliferation, and U.S.–Taiwan relations).

EUROPEAN UNION-U.S. TRADE RELATIONS*

The European Union[16] (EU) is one of America's most significant and stable economic partners. In 1993, the European Union was, after Canada, the second largest trading partner of the United States.[17] In 1994, trade turnover amounted to $213.6 billion. Rapid growth in the United States combined with a slow European recovery caused the U.S. merchandise trade deficit with the EU to widen from less than $1 billion in 1993 to $8.1 billion in 1994. Forty–one percent of U.S. foreign direct investment abroad is in the EU, while 51 percent of all foreign direct investment in the United States was of European origin. The U.S.–EU trade and investment relationship is generally positive, despite several bilateral issues (involving agriculture, Airbus, government procurement, audiovisual services and television broadcasting, semiconductors, and steel) that are a source of friction.

---

* By Glennon J. Harrison, Economics Division, CRS.

[16] The European Union has 15 member countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Austria, Finland, and Sweden officially joined the EU on January 1, 1995.

[17] The European Union is not a country; it is an economically integrated market with a common commercial, or trade, policy. The EU is a customs union, which means that all member countries have the same external tariff schedule.

U.S.-EU Trade and Investment

The EU bought 20.1 percent of U.S. exports of merchandise goods in 1994, a 6.0 percent increase over the previous year. This compares with a 5.7 percent decline in U.S. exports to the EU in 1993. The rate of growth of exports to all destinations increased by 10.2 percent in 1994. Within the EU, the largest markets for U.S. goods in 1993 were the United Kingdom (26 percent), Germany (19 percent), France (13 percent), and the Netherlands (13 percent). In 1994, U.S. imports from the EU amounted to $110.9 billion, or 16.7 percent of total U.S. merchandise imports. Within the EU, the largest suppliers of merchandise goods for the U.S. market were Germany (29 percent), the United Kingdom (23 percent), France (15 percent), and Italy (13 percent).

TABLE 6. U.S. Merchandise Trade with the EU-12, 1991-1994
($ billions)

Year	Exports	Imports	Balances
1984	49.7	60.2	-10.5
1985	48.3	67.8	-19.6
1986	52.4	75.7	-23.4
1987	59.7	81.2	-21.5
1988	74.7	84.9	-10.3
1989	86.6	85.1	1.5
1990	98.0	91.9	6.2
1991	103.2	86.5	16.7
1992	102.8	94.1	8.8
1993	97.0	98.0	-1.1
1994	102.8	110.9	-8.1

Source: U.S. Department of Commerce. Bureau of the Census. TradeNet. Exports are f.a.s. basis and imports are valued on a customs basis.

In 1994, trade in manufactured goods accounted for the bulk of U.S. exports (89 percent) to the EU and imports (89 percent) from the EU. The EU purchased 21 percent of all U.S. manufactures exports in 1994. In 1993, the European Union imported $55 billion in U.S. services exports, or 30 percent of all U.S. exports of services.[18] Imports of services from the EU totalled $48.5 billion, or 38 percent of all services imports. In 1993, the United States had a $7 billion surplus in services trade with the EU.

Issues in U.S.-EU Trade Relations

The principal international economic challenge in 1995 for the United States in its relationship with the EU likely will be to maintain the negotiating momentum that was achieved in the successful conclusion of the Uruguay Round. Negotiations continue over a number of trade issues that were taken up, but not resolved, in the Round. The United States is especially interested in: market access in financial services and in basic telecommunications services (basic long-distance and international telecommunications services); audio-visual services (the use of quotas mandated by the EU Broadcast Directive); government procurement in the area of telecommunications equipment; European aircraft subsidies; and standards, testing, and certification. An ongoing dispute over EU discrimination against U.S. banana marketing and distribution firms may lead to Section 301 retaliation by spring 1995 if the EU does not modify its banana import policy. Each of these issues is of major importance to U.S. industries in the affected sectors.

---

[18] 1993 data for services are the latest available.

In addition to trade disputes, the United States and the European Union recently reached an interim agreement on losses to U.S. exporters resulting from higher EU tariffs in Austria, Finland, and Sweden as a result of EU enlargement. Under Article XXIV of the GATT, a country is required to pay compensation to trading partners when it increases a bound rate of duty (i.e., raises tariffs). The interim agreement, which covers industrial goods but not agricultural items or paper products, is set to expire in June 1995, by which time U.S. negotiators hope to have a permanent agreement on EU compensation. The conclusion of preferential trade agreements between the EU and the countries of central and eastern Europe also raises concerns about possible discrimination against U.S. exporters.

EU Commissioner for Foreign Affairs Sir Leon Brittan recently called for negotiations to establish within the WTO a comprehensive set of binding rules to cover international investment. The WTO has an enforceable dispute settlement process. The United States has called for the establishment of a new international investment regime within the Organization for Economic Cooperation and Development (OECD). The OECD, whose membership is largely limited to advanced industrial countries, establishes only voluntary rules. The EU wants investment rules that would cover the broadest possible range of countries, while the United States would like to strengthen investment rules among industrial countries. The United States has successfully negotiated comprehensive investment rules in the NAFTA with Mexico and Canada. In March 1995, the EU suggested a two-track approach to devising new investment rules with negotiations in both the WTO and in the OECD.[19]

The possibility of a free trade agreement (FTA) between the United States and the European Union has been mentioned on several occasions in recent months. In two speeches in Europe in November 1994, the Ambassador of the European Commission to the United States, Andreas Van Agt, suggested that such an FTA would give impetus to the U.S.-EU partnership.[20] Canadian Prime Minister Jean Chretien raised the idea of an Atlantic free trade area that would link the European Union and the North American Free Trade Area in December 1994, and a European group composed primarily of businessmen and politicians, the Transatlantic Policy Network, recently called for the creation of a North Atlantic Free Trade Area.[21] In the United States, the leading advocate for the "other NAFTA" (i.e., the North Atlantic Free Trade Agreement) is Lane Kirkland, the president of the AFL-CIO.[22] Jeffrey Garten, Undersecretary of Commerce for International Trade, recently indicated that the Clinton Administration would be announcing a joint U.S.-EU initiative that could eventually lead to a U.S.-EU free trade agreement.[23]

---

[19] Barber, Lionel. Brittan Changes Tack on Investment Rules. *Financial Times*, March 2, 1995.

35

---

[20] Ambassador Andreas Van Agt, Delegation of the European Commission to the United States, in speeches in Maastricht, the Netherlands (November 17, 1994) and Shannon, Ireland (November 19, 1994).

[21] Dale, Reginald. Free Trade: How Europe Can Get Even. *International Herald Tribune*, December 16, 1994, and, Transatlantic Policy Network. *Toward Transatlantic Partnership: A European Strategy*. Brussels, 1994.

[22] Swoboda, Frank. Kirkland, No Compromise on NAFTA. *Washington Post*, September 1, 1993.

[23] Dunne, Nancy. U.S. Touts Idea of Free Trade Deal with EU. *Financial Times*, February 9, 1995.

TARIFF ISSUES*

U.S. tariffs are being reduced significantly as the Uruguay Round Agreements and NAFTA are being phased in. Several measures likely to be considered by the 104th Congress could introduce additional tariff changes on a bilateral or regional level.

MOST-FAVORED-NATION TREATMENT

The United States grants most-favored-nation (MFN; nondiscriminatory) treatment in trade relations to its trading partners generally as a matter of its own statutory policy as well as, in many individual instances, as an international bilateral or multilateral contractual obligation. In practice, this means, as a general rule, that all countries with which we trade are to be treated equally: any benefits or concessions accorded to one country are extended to all.

This policy was modified when, pursuant to a 1951 law, MFN status was withdrawn from all countries of the then Sino-Soviet bloc because of their support of North Korea's and China's involvement in the Korean conflict. After the Presidential discretionary authority to restore MFN status to a country—initially in the law—was eliminated in 1963, non-MFN countries could have the status restored only by specific legislation until the Trade Act of 1974, in Title IV, provided for conditional temporary restoration of the MFN treatment on a country-by-country basis to "nonmarket economy" (NME) countries.

Consequently, in addition to direct restoration by law, MFN status can now be restored to a NME country on the condition that it comply with the requirements of the freedom-of-emigration (Jackson-Vanik; J-V) amendment and other relevant provisions of Title IV. A country's full compliance with the J-V amendment must be determined initially by the President and such determinations renewed semiannually. Full compliance also may be waived by the President under certain conditions, and such waivers must be kept in effect by annual renewals. These take place through Presidential determinations (to be made by June 3 of each year) that the continuation in force of a waiver would promote the objectives of the freedom-of-emigration amendment. The year-end determinations of full compliance or the mid-year extensions of a waiver may be nullified by the enactment, within 90 calendar days, of a joint resolution of disapproval.

While eight countries remain without it, MFN status is extended conditionally under Title IV provisions conditionally to two countries (Bulgaria and Russia) under the Presidential determination of full compliance and to 14 countries under the waiver.

---

* By Vladimir N. Pregelj, Economics Division, CRS.

In this context, a controversial issue that the 104th Congress is likely to face is the continuation in force of the MFN status of the People's Republic of China, which was restored under Title IV provisions in 1980. In virtually every year since then, resolutions to disapprove the annual renewal of China's waiver were introduced, but none adopted. If the mid-1995 extension takes place, a joint resolution to disapprove it is likely to be introduced in either House.

Even earlier in the session, legislation—also highly controversial—may be considered to revoke altogether or restrict China's MFN status by placing additional conditions, mostly in the area of human rights, on the continued application of MFN status to China. Several bills containing such restrictions of varying scope and severity were introduced in the past two Congresses, but the two that were passed (by the 102d Congress) were vetoed by President Bush and their vetoes upheld by the Senate.

The 104th Congress may also consider legislation revoking (as an economic sanction) or restoring (either permanently or temporarily) MFN status of other countries. A bill (S. 251) to provide for the restoration of MFN status to Cambodia under the provisions of Title IV (for which Cambodia at present does not qualify) has already been introduced. Also likely is legislation to grant permanent MFN status to Bulgaria, a country still subject to Title IV provisions but found in full compliance with the J-V amendment and no longer requiring annual waiver extensions.

The Congress may also deal with measures—again likely to be controversial—to revise the J-V procedure and requirements in a way that would facilitate a phasing-in of unconditional MFN treatment for countries deemed in compliance with the freedom-of-emigration law. As the ultimate measure in this context, legislative consideration could be given to the repeal of the applicability of the J-V amendment to specific countries (e.g., Russia), or in its entirety.

GENERALIZED SYSTEM OF PREFERENCES

The generalized system of preferences (GSP) is a broad, GATT-sanctioned program whereby individual—mostly industrialized—countries unilaterally provide preferential tariff treatment to imports from less developed countries (LDCs). Established generally in the early 1970s under the auspices of the U.N. Conference on Trade and Development for the purpose of fostering more rapid development and diversification of LDCs' economies, it was implemented by the United States as of January 1, 1976, under the authority of Title V of the Trade Act of 1974. The U.S. GSP allows duty-free importation of a large array of otherwise dutiable products from LDCs designated as "beneficiary developing countries" (BDCs) of the program. The law provides specific criteria for the designation of a country as a BDC and for the eligibility of individual products for the preferential treatment as well as rules for the suspension or termination of a country's or product's eligibility for the program.

The GSP underwent only minor changes until it was significantly amended by the Trade and Tariff Act of 1984 (particularly as to the criteria for BDC designation and limitations on preferential treatment) and extended through mid-1993. Although in recent years further substantive changes in the GSP have been considered, two subsequent legislative actions on the GSP have resulted only in short extensions of the program; any substantive revisions have been postponed until after the disposition of two major foreign trade measures: bills to implement the North American Free Trade Agreement (NAFTA), and the Uruguay Round agreements, the latter of which also extended the GSP program through July 31, 1995.

At present, 148 countries and territories are designated BDCs of the program; minor changes in the designation will reduce their number to 147 by July 1, 1995. In 1993, imports under the GSP totalled $19,593.9 million (including $5,430.5 million from Mexico, no longer a BDC beginning in 1994), accounting for 16.5 percent of imports from the BDCs and 3.4 percent of total U.S. imports.

In view of the mid-1995 expiration of the U.S. GSP program and the Administration's position that it ought to be continued, the 104th Congress may consider at least its extension; since, however, many believe substantive changes of the system are warranted, the Congress is also likely to consider more comprehensive GSP legislation, presumably containing provisions such as were included in the initial draft of the Uruguay Round implementing bill, but subsequently dropped. They would pertain mainly to the criteria for country and product eligibility and provisions for termination of the program, BDC graduation from the program, "competitive need" limitation, and administrative procedures — making most of them more restrictive but also relaxing some.

CARIBBEAN BASIN INTERIM TRADE PROGRAM ("CBI PARITY")

The centerpiece of the Caribbean Basin Initiative, proposed in February 1982 by President Reagan as a comprehensive program "to promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin region," is the Caribbean Basin trade preference, enacted in 1983 by the Caribbean Basin Economic Recovery Act (CBERA) and implemented as of January 1, 1984. The CBERA has been amended several times, most substantively by the Caribbean Basin Economic Recovery Expansion Act of 1990 ("CBI II"), which added several improvements and made the program permanent.

The program authorizes special unilateral tariff preferences for much of otherwise dutiable imports from 24 Caribbean Basin countries designated as CBERA beneficiaries (all of them also designated GSP BDCs) and provides criteria for such designation and for the eligibility of individual products for the preferential treatment. Initially, the preference consisted of duty-free treatment of all eligible articles; a 1990 amendment authorized, in addition, preferential tariff treatment providing for the phasing-in of reduced but still positive rates for certain import-sensitive articles initially ineligible for the preference. The law also provides rules for the suspension or termination of a country's or product's eligibility. While the GSP and the CBERA have many features in common, the CBERA is significantly more advantageous in its operative provisions (particularly in the areas of product eligibility, and suspension or graduation) and in that it has no expiration date.

In 1993, imports under the CBERA amounted to $1,865.5 million (18.5 percent of all imports from CBERA countries — $10,094.0 million), all but $38.1 million free of duty. (Additional preferential imports of $359.7 million entered the United States from CBERA countries free of duty under the GSP.)

Because of the implementation, as of January 1, 1995, of NAFTA, the advantages derived from the CBERA by its beneficiaries relative to Mexico, in many respects their competitor and a major U.S. trading partner, however, have already been somewhat impaired and will continue to be impaired as the NAFTA is phased in. While articles that are eligible for the CBERA preference (most of them also eligible for GSP, of which Mexico was a BDC before acceding to the NAFTA) already are duty-free if imported from Mexico under NAFTA, import-sensitive products, which are dutiable under CBERA, will after staging periods of various lengths be duty-free under NAFTA. Thus, the eventual full implementation of NAFTA would not only eliminate the former advantages of CBERA countries over Mexico but also result in Mexico's advantage (particularly in textiles) over the CBERA countries, erode their competitiveness relative to Mexico and, to a significant degree, vitiate the primary purpose of the CBERA.

The 104th Congress is, hence, facing "CBI Parity" legislation, already introduced in two versions: the Caribbean Basin Free Trade Agreements Act (H.R. 465) and the Caribbean Basin Trade Security Act (H.R. 553), the latter of which has already begun moving through legislative procedure. Both measures would provide, during a transition period, to textiles and textile apparel articles imported from CBERA countries tariff and quota treatment equivalent to that accorded to such articles under NAFTA. The transition period would last either a specified time (3 years under H.R. 465 and 6 years in H.R. 553), or until the Caribbean country joins NAFTA or signs a NAFTA-like agreement with the United States, whichever is shorter). Other import-sensitive articles, for which reduced duty rates are being phased-in under the CBERA but whose duties are being gradually reduced to zero under NAFTA, albeit on a different schedule, would be treated at any time no less favorably under CBERA than under NAFTA.

The two measures, however, differ in the remaining provisions. H.R. 465 would require the U.S. Trade Representative (USTR) to determine the feasibility and likely timetable for a CBERA country's accession to the NAFTA or for its conclusion of a comparable comprehensive agreement with the United States, and authorize the negotiation of such agreement. H.R. 553, on the other hand, would require the President to convene a meeting of the USTR and trade ministers of CBERA countries to agree on the procedure for their acceding to the NAFTA or concluding a comparable agreement with the United States, and charge the USTR with assessing their ability to implement NAFTA and submitting a report thereon.

EXTENSION OF TEMPORARY SUSPENSIONS OF CUSTOMS DUTIES

Every few years Congress has considered and enacted legislation that temporarily (mostly for two years) suspended, or continued in effect the suspension of, customs duties on a large number of articles for which duty-free treatment was not controversial. Such changes—several hundred of them—were last enacted by the Customs and Trade Act of 1990 with effect through December 31, 1992, and then left to expire. Duty rates on the bulk of the articles to which these suspensions had applied were later permanently reduced to zero as part of the concessions granted by the United States during the Uruguay Round and became effective on January 1, 1995. These changes, however, still left unaffected the duties on some 90 tariff items whose suspensions had expired at the end of 1992 or even earlier, and which had remained subject to regular duties.

Although the renewal of the suspension of duties on these articles and possible addition of some others, if—as likely—introduced, may not be controversial from the standpoint of import sensitivity, their enactment would need to take into consideration the attendant loss of revenue, in view of the "pay-as-you go" rule.

OTHER ISSUES IN IMPORT POLICY

Congressional committees are likely to be active in monitoring the changes in U.S. laws regulating imports that were introduced by recent trade agreements. Laws dealing with dumping, subsidies, safeguards, and imports of textiles and agricultural products may be the subject of oversight hearings. Congress may also consider legislation to change the application of antidumping measures on imports from countries in transition and to reform agricultural import measures.

ANTIDUMPING*

Dumping occurs when a foreign firm charges a lower price for an exported product than it charges for a like product domestically or in sales to a third country. It has been considered an "unfair" trade practice for many years. In U.S. law, if dumping can be found to exist, and, if it injures import-competing firms, antidumping (AD) duties can be applied to offset the unfair price advantage of the dumping. Antidumping actions have been recognized in U.S. law since 1921 and by the GATT since 1947.

In recent years, economists have criticized the growing use of antidumping procedures. Economists generally believe that foreign dumping benefits the economy in which the products are being dumped as long as the dumping is not predatory (with the intent of driving other firms out of the market). According to economic analysis, if nonpredatory (which, economists argue, is usually the case), dumping results in lower consumer prices, more competition, and a more efficient economy.

More broadly, consumers gain from dumping, while U.S. firms which compete with the foreign imports being dumped are the primary losers. The gains to consumers are spread over the entire economy, and are generally small for any one consumer. The costs to import-competing industries are limited to a relatively small group, but might be high for that group. Economists believe the gain to consumers from the elimination of antidumping orders exceeds the loss to producers.[24] Many policymakers, however, view dumping as an unacceptable practice that injures American businesses.

The large number of national laws and regulations applying to antidumping investigations are very technical and detailed. Some argue that the procedures, which may require extensive data from the exporter in a short period of time, are biased in favor of the petitioners. To avoid AD investigations, which are time consuming and costly, some foreign exporters raise their prices or reduce their exports. Thus, trade may be affected even if no AD duties are applied.

---

* By Arlene Wilson, Economics Division, CRS.

[24] See, for example, Hufbauer, Gary Clyde, and Kimberly Ann Elliot. *Measuring the Costs of Protection in the United States*. Washington, D.C., Institute for International Economics, January 1994. p. 18-19.

In general, import-competing industries favor strong antidumping laws. Export industries, which may face antidumping investigations abroad, as well as domestic firms that use imported inputs in the production process, usually oppose strong antidumping laws.

The Uruguay Round

The Uruguay Round AD Agreement provides greater elaboration, specificity and clarity to multilateral antidumping rules.[25] The AD Agreement requires that antidumping procedures include, among other things, sunset reviews, a de minimis dumping margin of 2 percent, and stricter rules for comparing domestic and export prices, all of which will weaken U.S. antidumping procedures, although by only a small amount. Moreover, it includes rules requiring greater transparency and due process, which will benefit U.S. exporters.

A new "standard of review" for GATT dispute panels allows them only to determine whether the national authorities' decisions were proper, unbiased and objective, a provision that benefits import-competing industries.

Overall, the GATT procedural changes are modest since the negotiators had to balance the needs of groups with opposite goals. Generally, however, the GATT AD Agreement benefits U.S. exporters. On the other hand, provisions on captive production and anticircumvention[26] that are included in the implementing legislation (P.L. 103-465), but not in the GATT AD Agreement, benefit U.S. import-competing industries.

Issues for the 104th Congress

During the 103d Congress, the Clinton Administration proposed (as part of the GATT implementing legislation) that the U.S. antidumping law be modified temporarily to encourage imports from Russia and other economies in transition. More specifically, the antidumping law would be suspended for five years for economies in transition. Instead, if imports from the economies in transition could be shown to be a "serious" cause of injury, remedies such as quotas might be used. This proposal was ultimately excluded from the GATT implementing legislation, but it is expected to be resubmitted in the 104th Congress. (As of March 9, 1995, it had not been introduced.) If so, it is possible that other antidumping issues will be revisited, especially since some observers were not satisfied with the results of the Uruguay Round Antidumping Agreement.

---

[25] For a more detailed analysis, see U.S. Library of Congress. Congressional Research Service. *Antidumping and the Uruguay Round: An Overview*. Report No. 95-192 E, by Arlene Wilson. Washington, 1995. 20 p.

[26] Captive production is that part of the output of a firm that is used by the same firm in further processing. If excluded from estimates of the size of the domestic market (as the implementing legislation allows), the import penetration share (one of the criteria for determining injury) is larger, and a positive antidumping determination is more likely. Circumvention refers to shifting a minor part of assembly or production operations to another country to avoid an antidumping order.

More broadly, there is growing interest in examining competition policy as an alternative to antidumping procedures. Nonpredatory dumping may, in some cases, result from different degrees of competition in national markets. A domestic monopoly, for example, may find it profitable to dump in a country where competition is freer because a lower price generates revenues that at least cover variable costs. This is perceived as unfair by firms in the country where free competition is the rule because they do not have the opportunity to dump. If competition could be increased in the dumping country, antidumping procedures might be unnecessary. In fact, the European Union has replaced antidumping procedures with competition policy for intra-European Union trade. (Australia and New Zealand have done likewise for their bilateral trade.) Multilateral discussions about competition policy are in the very early stages.

SUBSIDIES[*]

Like dumping, foreign government subsidization of industries can injure the corresponding U.S. industries, so there is provision in U.S. trade law for defensive measures, known as countervailing duties (CVDs). CVDs are supposed to raise the landed price of imports back to where they would be without subsidies, hence eliminating the advantage of those subsidies.

While the Uruguay Round negotiations on antidumping focussed on measurement and procedural questions, the subsidies debate has been more philosophical. Many view governmental help for industry as a legitimate tool of national development, while others see in it a predatory distortion of international competition. Generally speaking, the United States is less oriented toward subsidization than are most other countries; thus, U.S. negotiators bargained in GATT for tight limits on the practice. The other side of this coin is that more CVD cases are brought under U.S. law than in any other country,[27] so U.S. manufacturing interests tried to maintain the authority for strong remedies. The issue has arisen most often with regard to various export-oriented industries, especially agriculture,[28] steel, shipbuilding, and some high tech industries (aircraft, electronics).

---

[*] By Edward Rappaport, Economics Division, CRS.

[27] In fact, more than in all other countries combined. Anderson, Andrew D. M. An Analysis of the Proposed Subsidies Code Procedures in the "Dunkel Text" of the GATT Uruguay Round. *Journal of World Trade*, June 1993. p. 71.

The agreement on subsidies introduces more explicit criteria than did the Subsidies Code negotiated in the Tokyo Round. Hence it may be more enforceable. Also in contrast to the previous Code, all members of the WTO must now comply, not just those countries voluntarily subscribing. Finally, guidelines are given for the conduct of CVD cases (generally reflecting those for antidumping cases).

The subsidies agreement defines "subsidy" officially for the first time, and distinguishes the acceptable from the unacceptable in a three-fold system likened to a traffic signal. "Red," or prohibited subsidies are those presumed always to distort trade, particularly export subsidies. "Yellow," or actionable subsidies become prohibited when it is shown that they distort trade. (This is presumed when the subsidy exceeds 5 percent of the recipient's sales revenue.) The "green" light is given, with limitations, to three special categories: research and development, regional development and environmental retrofitting.

There is considerable uncertainty about whether the agreement will bring real discipline to the practice of subsidization. Much will depend on the good faith compliance of national governments, as well as the performance of the dispute settlement panels. Because of the uncertainty, further negotiations are contemplated. By July 1996 a midcourse correction may be made in the R&D provisions. (A consensus of the WTO subsidies committee would be needed to make changes at that point.) More significantly, after five years of operation the whole green light category will expire if not explicitly renewed by the subsidies committee.

Overall, the agreement is a mixed bag for American industry. While it more clearly outlaws several types of subsidy, for the first time international approval has been given to other types. The most controversial area in the domestic debate has concerned R&D. The Administration changed its position on the issue toward the end of the Uruguay Round, so that the agreement now permits Government funding of up to 50 or 75 percent (depending on the stage) of industrial research. This became involved in the debate in the Senate on the National Competitiveness Act in March 1994, with some Members warning that the agreement would lead to a commercial "arms race" in technology. Others contended that the provisions were narrowly drawn and might even require the European Union to cut back its current programs.[29]

---

[28] Agriculture, which probably receives more subsidization than any other industry, has been handled on a separate track in the GATT negotiations. See p. 65, below. See also, U.S. Library of Congress. Congressional Research Service. *Agriculture in the Uruguay Round: An Assessment.* Report No. 94-582 S, by Charles Hanrahan. Washington, 1994. 10 p. Negotiations have also been held in other fora on particular industries, such as shipbuilding.

[29] U.S. Officials Defend New Subsidies Code, Say it Curbs Bad Supports. *Inside U.S. Trade*, February 11, 1994. p. 1, 12-13.

The underlying issue is likely to be faced this year in terms of domestic industry and technology policy rather than as a trade issue *per se*. The Administration seems committed to pressing forward with initiatives such as the Advanced Technology Program, the Technology Reinvestment Project, and industry-specific efforts such as USCAR (aimed at ultra-high energy efficiency). Proponents argue that there is a valuable role for the Government to play in giving direction and support to technological development in partnership with industry. Opponents of targeted appropriations tend to favor, instead, general tax incentives such as a research tax credit.

SAFEGUARDS[*]

Article XIX of the General Agreement on Tariffs and Trade (GATT) allows signatory nations to impose safeguards—temporary restrictions on products that are being imported in increased quantities and that cause or threaten serious injury to domestic producers. Safeguards are intended to give temporary relief to industries while they adjust to increased competition from foreign suppliers. Safeguards are distinct from other trade remedy measures, such as those aimed at dumping, subsidies and other unfair trade practices. While the latter are designed to counter existing distortions to efficient trade patterns, safeguards are used to impose restrictions on fairly traded goods.

Article XIX of GATT and U.S. Trade Law

In the past, it was agreed that safeguards could be applied under Article XIX only on a nondiscriminatory basis; that is, that import restrictions must be imposed on all countries that export substantial amounts of a given product to the country imposing safeguards. The GATT also provides that countries whose exports are affected by safeguards must be compensated by allowing them to withdraw equivalent tariff concessions or suspend other GATT obligations.

Section 201 of the Trade Act of 1974 provides statutory authority for U.S. application of safeguards.[30] It establishes procedures for petitioning the U.S. International Trade Commission (ITC) for relief against imports that adversely affect domestic industry. Section 201 currently provides that, in response to a petition for relief, the ITC conducts an investigation to determine whether increased imports are a substantial cause of, or threaten, serious injury to a domestic industry. If a majority of commissioners makes an affirmative determination (or if they are equally divided), the Commission must recommend action that would address the injury and facilitate efforts by the industry to adjust to the import competition. It may recommend a tariff, tariff-rate quota, quantitative restriction, adjustment measures, or a combination of measures.

---

[*] By George Holliday, Economics Division, CRS.

[30] Another safeguard provision, Section 406 of the Trade Act of 1974, provides a remedy against market disruption caused by imports from Communist countries.

The President may accept the ITC's recommendation, apply other remedies, or disregard it if he finds that it is not in the national economic interest.[31] The law limits to eight years the duration of the remedies, and encourages adjustment to the foreign competition. It gives the domestic industry an opportunity to submit adjustment plans to the President and directs him to consider the adjustment plans in deciding whether or not to provide relief.

Use of Safeguards and Other Trade Remedies

In recent years, governments have used formal, GATT–sanctioned safeguards increasingly rarely. Between 1979 and 1993, for example, the United States imposed Section 201 safeguards only four times, and none were in effect at the end of 1993. The European Community was the most frequent user, imposing safeguards 18 times during the same period.[32] In their place, many governments, including the U.S. Government, have resorted to extra–GATT, "grey area" measures or to other trade remedy statutes, such as antidumping and countervailing duties, to provide import relief. ("Grey area" measures refer to informal agreements to restrict imports, such as voluntary restraint agreements (VRAs) and industry–to–industry arrangements. VRAs are informal arrangements through which exporters voluntarily restrain certain exports.)[33]

Several factors have militated against the regular use of formal safeguard procedures. Perhaps most importantly, the GATT requirements that they be applied on a nondiscriminatory basis and that target countries be allowed to retaliate have made them appear to be very costly. The requirement of nondiscrimination has meant that the government applying safeguards could not selectively target a country or group of countries that it considers the primary source of injury to domestic producers. It must apply them to all countries that are substantial sources of the import. The requirement that other countries are entitled to compensation has meant that exporters in the country imposing safeguards risked losing equivalent access to foreign markets.

One approach to avoiding such requirements is to negotiate VRAs or similar measures. The European Union now uses this approach most often, with VRAs on over 40 products. The United States uses them more rarely, but used them in the 1980s to restrict a large volume of imports of automobiles, steel, machine tools, textiles, and other products. Governments often prefer VRAs because they can be negotiated and applied selectively with the countries that are sources of injurious imports. Moreover, since they are nominally voluntary, they do not require compensation for the exporting countries.

---

[31] Congress may adopt a joint resolution that approves the ITC remedy if the President takes action that differs from the ITC's recommendation, or if he declines to take any action.

[32] Schott, Jeffrey J. *The Uruguay Round: An Assessment.* Washington, D.C., Institute for International Economics, November 1994. p. 94-5. For a discussion of U.S. Section 201 cases during 1981-87, see U.S. Library of Congress. Congressional Research Service. *Disposition of Import Relief Cases Under Section 201 of the Trade Act of 1974 Since 1981: A Survey.* Report No. 88-207 E, by Vladimir N. Pregelj. Washington, 1988.

[33] For a more detailed discussion, see U.S. Library of Congress. Congressional Research Service. *Uruguay Round: Reform of the Safeguard Provisions of GATT.* Report No. 95-275 E, by George D. Holliday. Washington, 1995.

Another approach to avoiding the conditions for using safeguards is to petition under unfair trade laws because the standard for action under antidumping (AD) and countervailing duty (CVD) laws is lower than for safeguards. The growing preference for using unfair trade remedies instead of safeguards is apparent in recent U.S. trends. U.S. AD and CVD cases, which were declining in number in the late 1980s, have been rising steadily in the 1990s, while the number of Section 201 cases has declined.

Uruguay Round Reforms

The Uruguay Round included a Safeguards Agreement which establishes conditions under which countries can invoke Article XIX to temporarily restrict imports. Generally, it defines terms such as "serious injury," calls for consultations with affected countries, requires greater transparency in official safeguards proceedings, and sets limits on the duration of safeguards. Most of the changes are consistent with Section 201 provisions or administrative procedures in the United States. Consequently, while the Agreement requires substantial changes for other countries, it requires relatively few substantive changes in U.S. law.

The most important reforms in the Agreement are designed to make formal safeguards a more attractive option for temporarily restricting imports and to discourage the use of grey area measures. It suspends the automatic right to retaliate to a safeguard for the first three years. The Agreement maintains the general principle that safeguards should be applied in a nondiscriminatory manner, but allows one significant exception: if imports from certain countries have increased in a disproportionate percentage, the importing country may apply the safeguards selectively.

The Agreement also requires that existing VRAs be phased out within four years, but allows each country to "grandfather" one exception through 1999. (Only one such exception, a VRA that limits Japanese automobile exports to the European Union, is specified in an annex to the Agreement.) It also allows a more general exception for VRAs that are maintained pursuant to other provisions in the GATT (for example, antidumping measures) or pursuant to protocols or arrangements concluded within the framework of GATT (presumably including protocols of accession for new members).

On balance, the new rules seem to portend a somewhat greater inclination to rely on formal safeguards. The high injury standard for safeguard actions, however, will remain a disincentive for using them; it will still be easier for domestic producers to show injury if they can prove dumping or subsidization under the unfair trade remedies.

AGRICULTURAL IMPORT MEASURES*

Many countries, including the United States, have relied upon nontariff barriers to restrict or prohibit access of foreign agricultural products into their markets. These served primarily to protect specific commodity producers from competition posed by lower-priced imports. Such import protection, though, has meant that consumers (households and food manufacturers) usually paid more for certain food products or commodity ingredients than would have been the case if, in a completely free market environment, import barriers did not exist.

The United States has used quantitative restrictions, fees, and voluntary export restraints to limit the amount of some agricultural commodities and food products allowed to enter. These nontariff barriers (rather than traditional customs duties or tariffs) existed to protect U.S. commodity producers and/or processors from lower world prices caused partly by surplus overseas production. Through 1994, various statutory authorities and accompanying Presidential actions prescribed the use of these tools to protect the prices that domestic producers received for specified commodities and/or to ensure that the operations of existing price support programs functioned smoothly and without much cost to the U.S. Department of Agriculture. The most significant U.S. agricultural import barriers have been quotas and fees imposed by section 22 of the Agricultural Adjustment Act of 1933 on imports of dairy products, cotton, peanuts, refined sugar, sugar-containing products, and wheat in recent years; the sugar import quota; and standby import quotas triggered in case imports of beef and veal reached a threshold level. In calendar 1993, almost $5.2 billion in imports under these barriers accounted for 20.6 percent of U.S. agricultural imports and almost one percent of total U.S. imports.

Uruguay Round Agreements

As part of multilateral efforts to liberalize world agricultural trade, the GATT 1994 "Agreement on Agriculture" commits countries to take steps to open their markets to imports of protected agricultural commodities and food products. In technical terms, GATT signatories will "tarify" all nontariff import barriers, that is, convert each into *tariff-rate quotas* (TRQs) that allow for the required *minimum or current access commitments*, but still impose high tariffs on amounts that enter above these specified commitments. Each TRQ will allow imports up to the commitment level (the in-quota amount) to enter at a low or zero tariff. Imports above this level (above-quota amount) will be allowed entry, but subject to a tariff equivalent that reflects the protective value of the import restriction (derived from the difference between the higher domestic price and a lower world price).

Above-quota tariffs will decline by a minimum of 15 percent per tariff line item during the 1995-2000 implementation period. If imports of a product were less than 5 percent of domestic consumption in the 1986-88 base period, countries must establish minimum access equal to 3 percent of base period consumption in 1995, rising to 5 percent by 2000. If imports in the base period exceeded 5 percent, countries must maintain the level of current access. Individual countries' market access commitments are contained in each country's tariff schedules. In addition, countries will be allowed to use under certain market conditions temporary safeguard measures to limit imports of previously protected agricultural commodities in response to sudden import surges or declines in world market prices.

---

* By Remy Jurenas, Environment and Natural Resources Division, CRS

These provisions of the Agreement complement increased market access on agricultural imports that the United States granted to Mexico and Canada under NAFTA and the earlier U.S.–Canada Free Trade Agreement. Under these pacts, the United States treats most imports of previously protected agricultural commodities on a more preferential basis (e.g., granting special access, lowering tariffs to zero) than that accorded most other countries under the GATT Agreement's market access rules.

The 1994 Uruguay Round Agreements Act amends certain U.S. laws and tariff schedules to conform to the GATT Agreement's agricultural market access provisions. This Act effectively repeals the application of section 22 on imports that enter from WTO member countries, and repeals outright the Meat Import Act of 1979. Other provisions grant the President various authorities to administer and modify U.S. TRQs created to conform to the new market access rules, and change current restrictions affecting imports of cotton, cheese and chocolate crumb.

Issues in the 104th Congress

The revised U.S. TRQs will allow for increased imports of peanuts and dairy products starting in 1995, rising through the year 2000. This could create some pressure during the 1995 farm bill debate to make changes to these two commodity price support programs to accommodate the increased access granted to competing imports. Other currently protected commodities (sugar, meat, and cotton) will not face increased competition from foreign imports under the new rules. Most observers expect the U.S. above–quota tariffs will remain high enough during the implementation period to effectively keep out additional imports of these specific commodities and food products.

Negotiations on other possible free trade agreements (with Chile, other Latin American countries, and Pacific Rim nations) will likely see potential partners present requests for increased access to the U.S. market for certain agricultural products. For example, Argentina (an exporter of peanuts) may seek a separate quota in addition to its share of the new peanut within–quota amount under the new modified U.S. tariff schedules. Sugar exporting countries (Brazil for example) may seek similar access to sell more sugar to the U.S. market. U.S. negotiators will inevitably have to weigh these requests against U.S. objectives to secure increased access for U.S. farm products in some partners' markets, and make tradeoffs in cutting final deals. One wild card in the years ahead will be Cuba. Should current U.S. economic sanctions be lifted as part of a foreign policy change, Cuba can be expected to request access to sell sugar in the U.S. market. U.S. sugar producers likely would oppose any access if it threatened their market share position. This illustrates how U.S. decisions to grant market access on agricultural commodity imports can involve, as in the past, conflicts in accommodating differing foreign policy and domestic interest group objectives.

The 104th Congress will likely: (1) monitor the impact of increased foreign agricultural imports on U.S. import-sensitive commodity and food product sectors, (2) weigh these potential impacts in debating the peanut and dairy titles of the upcoming 1995 omnibus farm bill, and (3) monitor concessions the Administration might offer to potential trade agreement partners that might adversely affect import-sensitive commodity and product sectors.

TEXTILES[*]

Since 1961 textile and apparel trade has operated under a special regime that differs from the usual GATT framework. Under this "Multifiber Arrangement" (MFA), importing (developed) countries can impose permanent quotas on specific products from specific exporting (developing) countries whenever the importing country's industry is threatened by "serious injury." Elimination of this system was a prime objective of the least developed countries during the Uruguay Round. The Round concluded with an Agreement on Textiles and Clothing (ATC), a plan of phased liberalization leading to an end of MFA restrictions within 10 years. But also, for the first time, the developing countries are obligated to improve access to their own markets as well.

The centerpiece of the agreement is a four-step schedule for eliminating quotas. On coming into force, products accounting for 16 percent of each country's textile/apparel imports must be "integrated," i.e. authority for quotas on these products is eliminated. Three years later (1998) another 17 percent must be integrated, after seven years (2002) another 18 percent (51 percent total by then), and at the end of the transition (2005) the entire sector will be under general GATT principles. The choice of specific products to be included at each stage is left to the discretion of each importing country, subject only to the requirement that *some* products be included from each of the major groups.[34] Simultaneously, liberalization will also proceed through modest tariff reductions and acceleration of growth rates for whatever quotas are still in effect. (For example, a typical 6 percent per year growth rate must be boosted to at least 11 percent by the final phase.) There is authority for new, "safeguard" quotas of up to three years duration, but only in categories not yet reintegrated.

---

[*] By Edward Rappaport, Economics Division, CRS

[34] Yarns, fabrics, "made-up" goods, and apparel

The ATC also authorizes tightened enforcement of rules against evasion ("circumvention") of quotas by shipping through third countries and other fraudulent means. Importing countries are authorized to reduce the quotas of the true originating country and to put restrictions on the intermediate countries. These actions are to be taken, however, only after consultations. (The U.S. implementing act also revises the definition of country of origin.)

Key implementing decisions are to be made quite rapidly, as the implementing bill directs the Secretary of Commerce[35] to devise and publish the entire 10-year reintegration program at the outset. A preliminary plan was published in the *Federal Register* on January 30, 1995; the final plan is to be determined by April. The main advantage of this rapid decision schedule is that all affected interests can make long-range plans, and the debate will not simmer for 10 years. But it also obliges all interested parties to formulate and present their cases without delay. Although the proceeding is delegated to the executive branch, many congressional offices will no doubt take an interest in the matter, as well.

The only explicit criterion for the program is that "integration of the most sensitive products will be deferred until the end of the ten-year period." "Import sensitivity" is not defined, but has traditionally been understood as referring to imports that are most threatening to domestic producers. In other words, it is their concerns that are assigned first priority. Supporters of this approach argue that, considering the severe challenge liberalization will pose to the domestic industry, as much time as possible should be given for adjustment. They also note that this complies with the specific letter of the international agreement.

Importer and retailer groups argue that the early phases of the reintegration should include products of "commercial significance," if the *spirit* of the agreement is to be upheld. They cite the requirement of apparel products in each phase, as well as general statements of purpose in the agreement. The concern has also been raised that the credibility of complete liberalization at the end of the 10 years would be in doubt if meaningful liberalization is not well under way with the earlier steps.

---

[35] Delegated to the Assistant Secretary for Textiles and Apparel

IMPROVING ACCESS TO FOREIGN MARKETS

The Uruguay Round agreements and NAFTA will strongly affect the way the U.S. Government uses its trade laws, particularly Section 301 and related provisions, to negotiate better access to foreign markets. The changes are likely to be the subject of oversight hearings. The 104th Congress is also considering legislation to create a commission to review the decisions of the new WTO dispute settlement panels.

RESPONDING TO FOREIGN TRADE BARRIERS: SECTION 301[*]

Section 301[36] is one of the principal means by which the United States addresses unfair foreign barriers to U.S. exports and enforces U.S. rights under trade agreements. U.S. accession to the new WTO has raised congressional concern over the ability of the United States to use its trade laws to combat unfair trade practices.

Section 301: Its Operation

The Section 301 provisions cover a wide variety of practices and set procedures and timetables based on the type of trade barrier(s) addressed. Once the USTR decides to start a Section 301 investigation, it must seek to reach a negotiated settlement with the foreign country concerned, either in the form of compensation or an elimination of that barrier. If an agreement cannot be reached within a specified period (generally 12 to 18 months for most cases, except for intellectual property rights), the USTR is required to determine whether or not to retaliate. Trade retaliation usually takes the form of 100 percent tariffs on selected products.

U.S. trade law also contains various provisions which can trigger a Section 301 investigation:

- *Special 301*[37] directs the USTR to identify countries that deny adequate protection of U.S. intellectual property rights, and to initiate Section 301 investigations against "priority foreign countries," whose practices are considered to be the most serious or harmful.

---

[*] By Wayne M. Morrison, Economics Division, CRS.

[36] The Section 301 provision actually encompasses sections 301-309 of the Trade Act of 1974 (as amended), but is commonly referred to as just Section 301.

[37] Section 182 of the 1974 Trade Act (as amended).

- *Super 301*[38] directs the USTR to identify "priority foreign country practices" that have the greatest effect on restricting U.S. exports, and to initiate a Section 301 investigation against such practices.

There have been about 100 cases under Section 301 provisions since enactment of the program in 1974. The European Union (EU) was involved in the largest number of cases (about one–fourth, most concerning agricultural trade). Japan and Korea were second and third (together accounting for another one–fourth of the cases). Most cases have been resolved through trade agreements; only 15 cases have resulted in U.S. trade sanctions. Current Section 301 investigations involve Japan (auto parts), South Korea (beef and pork products), the EU (bananas), and Canada (broadcasting policy).[39]

Section 301: The Role of Congress

The significant rise in U.S. trade deficits with Japan and other countries during the early 1980's raised concern among many Members of Congress, who contended that the United States needed to take a more activist approach in combatting perceived foreign trade barriers to U.S. exports. Some argued that U.S. trade deficits were in part caused by foreign trade barriers to U.S. exports. Others contended that foreign trade barriers, while having little effect on U.S. trade balances, did distort the composition of trade and were harmful to certain U.S. industries. Finally, other policymakers argued that tougher U.S. trade policies were needed because the multilateral trade dispute resolution process within the GATT was weak and ineffective, and thus failed to protect U.S. trade rights. As a result, Congress in 1988 enacted the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100–418). The Act strengthened the Section 301 process (increasing the likelihood of U.S. trade action against foreign trade barriers) and added the Special 301 and Super 301 provisions.[40] Several countries were critical of the Section 301 provisions of the 1988 Trade Act, arguing that they constituted "unilateralism" and a violation of GATT rules.

A central goal of U.S. negotiators in Uruguay Round was to strengthen the trade dispute mechanism under the GATT. The Uruguay Round agreements established the WTO to administer the new trade rules and oversee settlement of trade disputes. A key concern of some Members of Congress has been that the new WTO may strongly diminish the ability of the United States to utilize Section 301 unilaterally and could cede U.S. sovereignty to the WTO by diminishing the U.S.' ability to retaliate against foreign trade barriers.

---

[38] Section 310 of the 1974 Trade Act (as amended), expires at the end of 1995.

[39] A Special 301 case involving China (initiated on June 30, 1994) was resolved on February 26, 1995.

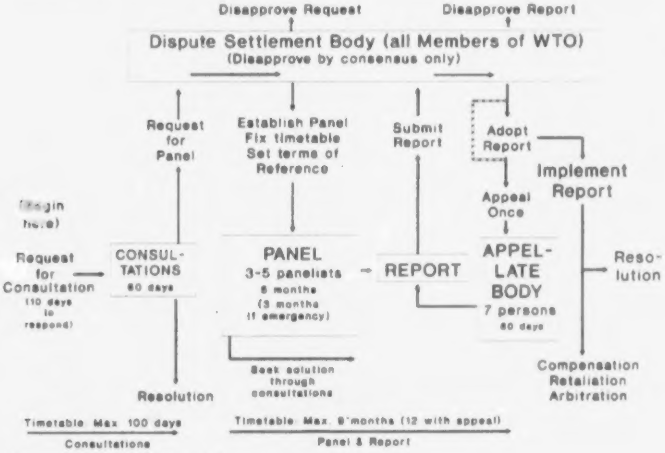
[40] The original Super 301 provision applied to the years 1989 and 1990; it expired in 1990. In March 1994, President Clinton issued an executive order reinstating Super 301 for 1994 and 1995. That extension was made into law by P.L. 103-465.

DISPUTE SETTLEMENT UNDER THE WTO*

Under the World Trade Organization (WTO), the United States may use an improved dispute settlement mechanism to resolve certain trade problems with other member nations. The mechanism under the WTO offers expanded coverage and nearly automatic approval for panel requests and reports.

The new dispute settlement mechanism under the WTO broadened the scope of the disputes covered to include services and intellectual property rights (in addition to goods) and no longer requires a consensus for dispute panels to be convened or their reports to be approved. Unlike the mechanism under the General Agreement on Tariffs and Trade (GATT), no single nation can block either action. Approval for establishing panels and for reports would be automatic unless disapproved by consensus.[41]

FIGURE 2. Dispute Settlement under the World Trade Organization


Disapprove Request
Disapprove Report
Dispute Settlement Body (all Members of WTO)
(Disapprove by consensus only)
Request for Panel
Establish Panel Fix timetable Set terms of Reference
Submit Report
Adopt Report
Implement Report
Appeal Once
(Begin here)
Request for Consultation (10 days to respond)
CONSUL-TATIONS 60 days
PANEL 3-5 panelists 6 months (3 months if emergency)
REPORT
APPEL-LATE BODY 7 persons 60 days
Reso-lution
Seek solution through consultations
Resolution
Compensation Retaliation Arbitration
Timetable: Max. 100 days
Consultations
Timetable: Max. 9 months (12 with appeal)
Panel & Report

Source: Congressional Research Service

---

[*] By Dick K. Nanto, Economics Division, CRS.

[41] For details, see: U.S. Library of Congress. Congressional Research Service. *World Trade Organization: Institutional Issues and Dispute Settlement.* Report No. 94-627 A, by Jeanne J. Grimmett. Washington, 1994.

BEST COPY AVAILABLE

The United States supported dropping the requirement for a consensus because it hindered effective dispute settlement and enforcement. This change implies, however, that the United States also would not be able to block an unfavorable WTO panel decision.

Other changes to the dispute settlement mechanism are the addition of an Appellate Body and a shortening of the time required for the process to conclude. Since the United States no longer can block a panel report, it insisted that a WTO Appellate Body be established to hear one appeal per case. The time frame for a case would not exceed nine months from the establishment of a panel (twelve months with an appeal). This is shorter than the fifteen months specified under the GATT.

The WTO procedure also tightened the implementation and compensation aspects of dispute settlements. If a report's recommendations or rulings are not implemented within a reasonable period of time, the responding party may have to provide compensation. If no compensation scheme can be devised, the complainant has the right to request authorization to retaliate. The retaliation, however, would have to be in the same sector in which the case occurred unless such is not practicable. Cross–retaliation is, therefore, now allowed.

In terms of U.S. sovereignty, therefore, the United States could not be forced to change its laws in the case of an unfavorable decision, but it might have to pay compensation or face retaliation. In order to secure passage of the legislation approving the WTO, the Clinton Administration promised Congress that it would support legislation (such as S. 16, 104th Congress) to create a WTO Dispute Settlement Review Commission to evaluate WTO panel decisions that go against the United States. If the proposed Commission decides that WTO panels have operated unfairly or exceeded their jurisdiction (and the action materially affected the outcome of the report) three times within a five–year period, it would trigger a process under which the United States could pull out of the WTO.

A WTO member can invoke the dispute settlement process when it feels that any benefit accruing to it directly or indirectly under the WTO Agreement is being nullified or impaired. The process is not limited, therefore, just to explicit violations of WTO agreements. Nullification or impairment of benefits can occur when some government action negatively affects an expected benefit.

The WTO dispute settlement mechanism, of course, can also be used by other member nations against the United States, particularly as a recourse against U.S. unilateral action. For example, the United States might impose sanctions on Japan as a result of a U.S. unfair trade practices case. Japan might then appeal the U.S. sanctions to the WTO if they affect items covered by a WTO agreement. The outcome of such cases would be unclear, but such recourse to the WTO could work to constrain the ability of the United States to take unilateral actions under section 301 or Super 301. Trade retaliation authorized by the WTO as the result of a dispute settlement case, however, would be legal under the WTO and not subject to counter–retaliation.

Congressional interest in settling disputes through the WTO seems to lie mostly in oversight of U.S. trade policy and in resolving trade issues both at the national and constituent level. Cases could be initiated either by the U.S. government or by a private-sector complainant petitioning the government or by filing an unfair trade practices case under U.S. trade law.

GOVERNMENT PROCUREMENT*

Governments are the largest single group of buyers of non-defense goods and services. Through "buy national" policies, governments have used their procurement as a vehicle for awarding preference to domestic suppliers to enhance employment opportunities and achieve other social welfare goals. The United States and some of its major trading partners have entered into multilateral and regional agreements to open their government procurement markets to foreigners in order to broaden international trade. Nevertheless, disputes over discrimination in government procurement remain a major issue in U.S. trade relations with its major trading partners.

Because of its effects on U.S. industries, the Congress has had a continuing interest in government procurement. The interest is reflected in U.S. statutes governing U.S. Government procurement and those pertaining to foreign government discrimination against U.S. products and services.

The Buy American Act of 1933

The Buy American Act of 1933 is the chief U.S. buy national statute. The Act requires, with certain exceptions, Federal agencies to purchase American-made products — products that contain less than 50 percent foreign inputs — when they are for public use. The Act allows Federal agency heads to make exceptions in cases where they determine that buying an American product would force the government to bear an "unreasonable cost," where it would not be in the public interest, where the products that are to be used outside the United States, and where the product in question is not produced domestically in sufficient quantities or quality. The United States has special arrangements for military purchases under memoranda of understanding (MOUs) with its NATO partners. State and local governments have their own government procurement laws and regulations.

The GATT Government Procurement Code and the Trade Agreements Act of 1979

On January 1, 1981, U.S. policy and regulations on government procurement changed when the multilateral Government Procurement Code (the

---

* By William H. Cooper, Economics Division, CRS

Code) went into effect. The Code is implemented under Title III of the Trade Act of 1979, as amended.

The Code was negotiated under the 1973-79 Tokyo Round of GATT negotiations. Its chief sponsors, including the United States, wanted to open up government procurement markets to foreign contracts in an effort to liberalize international trade. The Code requires the governments of each signatory country to afford "national treatment" to the goods of the other signatory countries, when purchasing for public use. That is, they are to treat those products no less favorably than they treat domestically produced goods. The Code also established criteria to ensure transparency or openness in the procurement process. The Code applies to contracts above a specified value and only to contracts issued by agencies listed in the appendix of the Code. It does not apply to local and regional government procurement nor to services trade.

During the Uruguay Round, many of the Code-signatory countries negotiated a new Code that is to enter into force January 1, 1996 and which expands the coverage of the original Code. Among other things, the new Code will cover services trade as well as goods, and it includes procurement by some local and regional (State) governments. Furthermore, the new Code provides procedures for losing bidders to challenge the award of contracts, and it prohibits offset programs unless the signatory has negotiated an exception.

Title VII -- The Omnibus Trade and Competitiveness Act

In 1988, Congress amended the Buy American Act and the Trade Agreements Act of 1979, with Title VII of the Omnibus Trade and Competitiveness Act (P.L. 100-418). The provision arose out of concerns that foreign governments were discriminating against U.S. products in their procurement despite being signatories to the Code and to address discrimination by countries that are not Code signatories.

The provision requires the United States Trade Representative to identify signatory and non-signatory countries that discriminate against U.S. products in their procurement. The provision lays out procedures for negotiations in both cases to get the countries to change their practices. If no resolution results, sanctions may result in a ban on Federal government procurement from the country in question.

The United States has used Title VII or has threatened to use it as a means of getting major trading partners to open their government procurement markets to U.S. exports. In February 1992, the USTR identified the European Union as discriminating against U.S.-produced telecommunications equipment and heavy electrical equipment under its Utilities Directive. In May 1993, the USTR imposed sanctions when negotiations failed to resolve the problem. In April 1994, the two sides announced a partial agreement that opened up trade in government procurement in heavy electrical equipment, but not in telecommunications equipment. Because of EU resistance in the telecommunications area, some U.S. sanctions remain in effect.

Government procurement is also a major issue in U.S.–Japan trade. It is part of the bilateral trade framework that the Clinton Administration negotiated with Japan. In October 1994, after long, sometimes fractious negotiations, the two countries announced agreements that addressed U.S. concerns about Japanese discrimination in government procurement of telecommunications equipment and technology and medical equipment and technology. While Japan had not been formally identified under Title VII, the threat of such action helped to move the negotiations along.

Government Procurement Under NAFTA

NAFTA opens up foreign trade in government procurement for the United States in several ways. For example, Mexico is not a signatory to the Government Procurement Code; therefore, NAFTA subjects its government procurement policies and procedures to an international agreement for the first time. In addition, the government procurement provisions of NAFTA apply to contracts for goods and services with values lower than the threshold levels established under the Government Procurement Code. In general, NAFTA requires that each Party to the Agreement, when purchasing products for government use, extend treatment to the goods and services of other Parties that is no less favorable than it extends to domestic products.

INTELLECTUAL PROPERTY RIGHTS[*]

Protection of intellectual property rights is a cornerstone of U.S. trade policy. The rapid expansion of international trade during the 1980s was accompanied by a corresponding increase in awareness that U.S. intellectual property rights abroad lacked effective protection. U.S trade laws (especially "Section 337" and "Special 301") and international trade agreements protect the owners of intellectual property rights.[42] The U.S. Government has acted unilaterally and multilaterally in response to unfair trade practices related to intellectual property rights.

Intellectual property refers to works, inventions, product designations, or configurations that are protected by various legal forms, such as copyrights, patents, trademarks, geographical indications, industrial designs, and layout-designs (topographies) of integrated circuits. Definable literary or artistic works, discoveries, or designs can be protected through the grant of a limited exclusive right to the originator of such a work, invention, or product design. Protection of intellectual property rights under the patent law, for example, can extend to ideas that are embedded in inventions, products, and processes. By contrast, copyright protects original, creative expression but does not protect the idea contained in a work, such as a computer program. Once granted, intellectual property rights may be traded or licensed.

---

[*] By Glennon J. Harrison, Economics Division, CRS.

[42] Recent changes to U.S. and international intellectual property rights rules are analyzed in U.S. Library of Congress. Congressional Research Service. *Intellectual Property Provisions of the GATT 1994: "The Trips Agreement."* Report No. 94-302 A, by Dorothy Schrader. Washington, 1994. 38 p.; *Enforcement of Intellectual Property Rights Under the GATT 1994 TRIPS Agreement.* Report No. 94-228 A, by Dorothy Schrader. Washington, 1994. 20 p.; *Copyright Restoration for Public Domain Works.* Report No. 94-645 A, by Dorothy Schrader. Washington, 1994. 28 p.

Intellectual property rights are important to many sectors of the U.S. economy, but have special importance to a core group of U.S. industries, including the sound recording, film, television, pharmaceutical, publishing, semiconductor, software, and biotechnology industries. According to Ira Shapiro, General Counsel to the U.S. Trade Representative, this core group of industries represented 4.7 percent of the U.S. economy and employed 3.3 million workers in 1991. The importance of intellectual property rights extends well beyond the core sectors to many other affiliated industries or to industries that are only partially dependent on intellectual property protection.[43] On February 13, 1995, the International Intellectual Property Alliance, a group representing 8 trade associations and more than 1,500 copyright-based companies, reported that estimated trade losses stemming from copyright piracy exceeded $8 billion in 1994.[44]

With respect to intellectual property rights, section 337 of the Tariff Act of 1930, as amended, authorizes the International Trade Commission (ITC), on the basis of a complaint or on its own initiative, to institute an investigation into unfair trade practices in import trade, such as infringement of a valid and enforceable U.S. patent, registered trademark, registered copyright, or registered mask work, for which a domestic industry exists or is in the process of being established.[45] The ITC can issue an exclusion order if it determines a violation exists. The U.S. Customs Service is charged with enforcing exclusion orders, but is not authorized to seize infringing goods. The President may disapprove an ITC order within 60 days of its issuance for "policy reasons."[46] At the end of

---

[43] Statement of Ira S. Shapiro before the Subcommittee on International Economic Policy, Trade and Environment of the Committee on Foreign Affairs. May 3, 1994.

[44] International Intellectual Property Alliance. *IIPA Identifies 42 Countries Plus the C.I.S. Which Account For Over $8.57 Billion In Trade Losses Due To Copyright Piracy in 1994.* February 13, 1995.

[45] The Uruguay Round Agreements Act (P.L. 103-465) amended section 337 to bring U.S. procedures into conformity with the national treatment obligations of the GATT. The amendments came in response to a GATT dispute settlement panel report in 1989 that found that ITC procedures in section 337 investigations are inconsistent with the national treatment rule because imported goods are treated less favorably than domestic goods in infringement proceedings.

[46] U.S. International Trade Commission. *The Year In Trade 1992.* 44th Report. USITC Publication 2640. July 1993. p. 93.

1992, the ITC reported that 51 outstanding exclusion orders based on violations of section 337 were in effect, of which 33 involved patent violations. In a 1986 report, the U.S. General Accounting Office reported that litigation costs for firms seeking relief under section 337 ranged from $100,000 to $1 million. That report found that of firms with a basis for assessing the effectiveness of section 337, 35 percent were satisfied that the exclusion orders were effective in keeping infringing goods out of the United States, while two–thirds of those surveyed believed infringing goods continued to enter the country.[47]

The 1988 Omnibus Trade and Competitiveness Act contained the "Special 301" provision that requires the USTR to identify countries that fail to protect or enforce adequately intellectual property rights. Countries whose acts, policies, or practices have the greatest adverse impact (actual or potential) are to be identified as priority foreign countries. Priority foreign countries are potentially subject to sanctions under section 301 of the Trade Act of 1974. In 1994, the USTR identified 36 countries that deny adequate or effective intellectual property rights or deny fair and equitable market access,to persons who rely on intellectual property protection. Argentina, China, and India were identified as posing particularly serious problems. After a 60–day review, China was identified as a priority foreign country. On February 4, 1995, the USTR determined that China had failed to protect intellectual property rights and did not provide market access to persons who rely on intellectual property protection. The USTR determined that trade actions and sanctions would be appropriate. A last–minute agreement between the U.S. and Chinese Governments averted the imposition of sanctions. The International Intellectual Property Alliance hailed the agreement as a major victory for U.S. copyright industries.[48]

The recently concluded Uruguay Round of the General Agreement on Tariffs and Trade (GATT) established multilateral obligations for the protection and enforcement of intellectual property rights and provides that the dispute settlement procedure of the World Trade Organization (WTO) will apply to intellectual property disputes among parties to the agreement. The private sector largely approved of the agreement on intellectual property. rights. Nevertheless, the GATT agreement did not resolve all of the intellectual property rights issues that are of importance to U.S. business. For example, developing countries and countries in transition from centrally planned economies will not have to implement the new standards and enforcement measures for many years. In addition, pharmaceutical companies note that their patents may not be recognized in developing countries for as many as 10 years, with a consequent loss of billions in revenues. Despite its shortcomings, the new intellectual property rights regime establishes a recognized set of rules and procedures that will cover all WTO signatories. This regime is expected to reduce U.S. reliance on unilateral trade actions under Special 301.

---

[47] U.S. General Accounting Office. *U.S. Firms' Views on Customs' Protection of Intellectual Property Rights.* GAO/NSIAD-86-96. Washington, 1986. 43 p.

[48] International Intellectual Property Alliance. *Copyright Industries Support U.S.-China Agreement To Enforce Its Law Against Copyright Pirates.* February 27, 1995. For an analysis of the U.S.-China intellectual property rights dispute, see U.S. Library of Congress. Congressional Research Service. *The China-U.S. Trade Dispute on Intellectual Property Rights.* Report No. 95-294 E, by Wayne M. Morrison. Washington, 1995. 6 p.

EXPORT POLICY

The congressional agenda in export policy will be influenced not only by the recent trade agreements, but by budgetary consideration and calls to enact an export control law that reflects the post-Cold War international order.

EXPORT CONTROLS*

The United States controls exports to preserve national security, to prevent domestic shortages and inflation and to further U.S. foreign policy. The primary authority for controlling U.S. exports, the Export Administration Act of 1979 (EAA) (50 U.S.C. App. 2401 *et seq.*;P.L. 96-72), as amended, expired on August 20, 1994. The President invoked the authorities granted by the International Economic Emergency Powers Act (50 U.S.C. 1703(b)) to continue in effect the system of controls contained in the Export Administration Regulations (15 C.F.R., Parts 768-799).

The Clinton Administration and many Members of Congress have called for the overhaul of U.S. dual-use export control laws to take account of the changing international environment. Much of the post-war export control system is now in the process of being renegotiated: the Administration is negotiating with allies over the organization of a successor regime to replace the Coordinating Committee on Multilateral Export Controls (CoCom) and, closer to home, it is preparing to send legislation to Congress to reauthorize the Export Administration Act of 1979 (EAA).

U.S. dual-use[49] export control policy has undergone a fundamental transformation in the years since the Berlin Wall came down in 1989. The policy of containment, which provided the essential rationale for national security export controls, has been superseded by a policy aimed at preventing the proliferation of weapons of mass destruction. Instead of a policy based on denial of strategic technology exports to the Soviet Union, its allies, and other Communist countries (e.g., China, North Korea, Cuba), the United States and its allies now confront the threat of proliferation and a related series of lesser threats. Unlike the threat posed by the Soviet Union, where informed opinion was overwhelmingly in agreement on the strategic threat, no consensus has yet emerged as to policies that are necessary to counter *either* the residual threat from Russia and the other former Soviet republics that retain nuclear weapons *or* the threat of proliferation.

---

* By Glennon J. Harrison, Economics Division, CRS.

[49] Dual-use exports are goods or technology that are essentially commercial in nature, but which may also have military uses. Munitions and related technology are not dual-use goods. Some products that are commercially available in the United States are classified as munitions and require State Department approval for export.

The fundamental issue that has arisen in the debate over EAA reauthorization, and one which the Clinton Administration has recognized, is how to liberalize export controls while effectively countering efforts by certain countries or groups to acquire weapons of mass destruction. Can export controls be as effective in efforts against proliferation as they were against the Soviet Union? What will be the economic impact of such a system? Will the economic impact fall disproportionately on U.S. business? Will a CoCom successor regime rely on broad multilateral controls, or will each member exercise discretion in deciding which controlled goods may be exported?

Businesses have frequently cited studies that show that export controls have a very significant negative impact on high technology businesses, jobs, research and development and, ultimately, the wider economy. Studies[50] have estimated lost exports at around $10 billion per year — although there are sound economic reasons to believe that the lost exports represent lost sales by certain firms and not an overall decrease in net exports. If lost sales mean markets are lost to foreign competitors, then the loss of sales by a very limited number of high technology firms might have serious long-term consequences for some of the most dynamic firms in the United States. The consequences might be a worsening of the terms of trade and lower national income. What is not clear is the implication that a $10 billion loss in sales by certain high technology firms is a measure of declining "economic security."

In February 1994, the Clinton Administration proposed legislation to reform the Nation's dual-use export control laws. In the 103d Congress, substantially different bills were reported out of the House Foreign Affairs Committee and the Senate Banking Committee, but neither the House nor the Senate took up the legislation before adjournment. The business community and the Clinton Administration were divided over how to rewrite the EAA, and defense and nonproliferation proponents opposed the Administration and business reform proposals. Compromise proved too difficult to achieve before the end of the session. Deep divisions in Congress reflected concerns over the risks of high technology civilian products finding their way into the hands of governments and individuals attempting to build weapons of mass destruction. Within the House, the Foreign Affairs and Armed Services Committees reached agreement on most outstanding issues, but were unable to resolve the issue of commodity jurisdiction.[51]

---

[50] Richardson, J. David. *Sizing Up U.S. Export Disincentives*. Washington, D.C., Institute for International Economics, 1993; Council on Competitiveness. *Economic Security: The Dollar$ and Sense of U.S. Foreign Policy*. Washington, D.C., February 1994; and, National Academy of Sciences. *Balancing the National Interest*. Washington, D.C., 1987.

[51] Commodity jurisdiction has long been a source of conflict. Commodities may be defined as "dual use" or munitions. A dual-use item would fall under the licensing jurisdiction of the Department of Commerce, while munitions are licensed through the Department of State. In some cases, items with significant civilian applications that are commonly sold for commercial purposes are classified as munitions and dual-use goods.

Legislation in the 104th Congress

The 104th Congress is considering legislation to rewrite and reauthorize the EAA. Rep. Toby Roth introduced a bill (H.R. 361) on January 4, 1995 that is similar to legislation that was reported out of the House Foreign Affairs Committee during the 103d Congress (H.R. 3937). In introducing H.R. 361, Rep. Roth noted that the bill represents a starting point for consideration of export control legislation. On January 25, 1995, the Subcommittee on International Economic Policy and Trade began a series of hearings on H.R. 361.

EXPORT PROMOTION*

There has been considerable debate among U.S. policymakers in recent years over the effectiveness of, as well as the need for, Government trade programs to promote U.S. exports. The effect of export promotion programs on U.S. trade and the economy is an important factor in this debate.

The U.S. Export Promotion Regime

Currently, there are at least 19 Federal agencies which are engaged, directly or indirectly, in promoting U.S. exports. The three main Federal agencies include:

- *The U.S. Department of Agriculture (USDA).* The USDA administers a variety of programs to assist agricultural exports. It grants subsidies to U.S. exporters for overseas sales, guarantees loans to foreign countries for the purchase U.S. commodities, and shares with U.S. industry groups the cost of overseas market development programs. The USDA also promotes noncommercial exports with food aid programs.

- *The Department of Commerce, International Trade Administration (ITA).* The ITA guides businesses through the export process, supplies general market information, and provides basic export counseling. ITA maintains a staff of industry and country specialists who advise firms how best to market their products overseas, as well as overseas staff who collect data on foreign markets and provide marketing assistance to U.S. firms in foreign countries.

- *The Export-Import Bank of the United States (Eximbank).* The Eximbank maintains loans, insurance, and guarantee programs to facilitate exports of U.S. goods and services. Many of Eximbank programs are used to counter export subsidies of other countries.

---

* By Wayne M. Morrison, Economics Division, and Lenore Sek, Environment and Natural Resources Policy Division, CRS

In FY 1995, the Federal Government spent an estimated $3.0 billion on export promotion activities. The Clinton Administration proposed $3.2 billion for export promotion in FY 1996. As table 7 indicates, a significant amount of export promotion resources (about 57 percent in FY 1995) are spent on agriculture, even though agricultural exports account for less than 10 percent of total U.S. exports.

TABLE 7. Export Promotion Budget Authority by Federal Agency: Fiscal Years 1993–1996, Actual and Requested
($Millions)

	1993	1994	1995	1996 Request
Agriculture Department	$2,052	$2,153	$1,707	$1,798
Commerce Department	201	233	253	265
Eximbank	675	982	774	913
All Other	194	232	237	263
Total[a]	3,122	3,600	2,971	3,240

[a] Totals exclude the Overseas Private Investment Corporation (OPIC) which earns a profit on its operations.

Source: *Budget of the United States Government, Fiscal Year 1996, Analytical Perspectives*, p. 164.

Efforts to Reform the U.S. Export Promotion Regime

Congressional debate on government export promotion programs has focused on several factors, including the large and continuing U.S. trade deficits; concern over the international competitiveness of certain U.S. industries; Government studies which purport to show the absence of clear national priorities in the funding, delivery, and coordination of export promotion services among Federal agencies; perceptions among some policymakers that current Federal export promotion programs have not adequately met the needs of small and medium-sized exporters; and concern that other major industrialized countries have allocated significantly larger levels of resources for export promotion than the United States — to the detriment of U.S. exporters.

Congress attempted to address some of the perceived shortfalls in the U.S. export promotion regime through the enactment of the Export Enhancement Act of 1992 (P.L. 102–429). The Act gave statutory authority to the Trade Promotion Coordinating Committee (TPCC), headed by the Department of Commerce, to coordinate trade promotion activities among several Federal trade agencies. In addition, the TPCC was directed to develop a Government-wide strategic plan for trade promotion that established priorities for Federal trade activities and a rationale for trade programs. Finally, the TPCC was directed to propose to the President an annual unified budget for trade promotion activities within the Federal Government which allocates resources according to the TPCC's strategic plan.

In September 1993, the TPCC issued a report making 65 policy recommendations to Congress to improve the coordination and delivery of Federal export promotion programs, including:[52]

- Creating a unified export promotion budget that allocates resources consistent with geographic and sectorial priorities.

- Creating one-stop shops within identified regions which enable exporters to obtain all needed assistance from one location.

- Developing a single, comprehensive strategic plan for each country with significant market potential for U.S. exporters.

- Creating a TPCC Advocacy Coordinating Network to identify major procurement and project opportunities overseas and to assist U.S. firms in obtaining contract awards.

- Expanding U.S. export finance programs, improving dissemination of information of such programs, and expanding the role of private banks in export finance.

The TPCC has been able to carry out many of its recommendations without congressional action. However, to date, it has not yet established a comprehensive list of priorities for export promotion activities, a set of clear economic rationale for trade programs, or a unified budget proposal which would significantly reallocate budget resources based on export promotion priorities.

Is There a Clear Economic Rationale for Export Promotion Programs?

Traditional economic theory holds that the free market system (and free trade) provides the most efficient allocation of goods and services in the economy, based on supply and demand forces. However, market failures may occur which prevent the market from operating at its most efficient level. In such cases, some form of government intervention may be justified. The existence of imperfect market information, spillovers, and imperfect competition is often cited as a justification for using export promotion programs. However, disagreement often arises over whether a market failure has in fact occurred, and whether government trade programs can produce *net* benefits for the economy as a whole.

---

[52] Trade Promotion Coordinating Committee. *Toward a National Export Strategy.* September 30, 1993. 104 p.

Supporters of government export promotion programs contend that imperfect or inadequate information (such as a lack of awareness of export opportunities, information on how to export, or availability of export financing), has caused certain U.S. firms to export below their efficient level. Hence firms would seek to boost their level of exports if they had better information on export markets, and overseas demand for U.S. goods and services would increase if foreign buyers were made better aware of U.S. products. It is further assumed that imperfect information has prevented firms from becoming more active in providing export services or has caused the costs for such services to be prohibitively high. For example, it is contended that small and medium-sized exporting firms often have difficulty obtaining export financing or must pay "high costs" for such services, due to the *perceived* "high risks" of exporting by banks and other financial institutions. Thus, it is argued that government trade programs are needed to rectify such failures in the market.

Another rationale for government trade programs is the belief that the government may be the most efficient institution for collecting, evaluating, and disseminating information to firms on changing foreign market trends, new trade opportunities, and guidelines on how to export. The resources available to the Federal Government allow it to enjoy certain economies of scale in the collection and dissemination of trade information. Private-sector firms, especially small and medium-sized firms, may not have the resources to obtain such information on their own.

Opponents of government export promotion programs argue that market distortions caused by imperfect information are minimal and do not warrant government intervention. They contend that U.S. firms are generally exporting the level of goods and services demanded in the international market as determined by supply and demand conditions, access to world markets, and macroeconomic forces (principally exchange rates). Thus it is argued that government trade programs, while affecting the composition of U.S. exports, have little effect on the overall level of U.S. exports. Opponents further contend that the availability and prices of export services (including financing) simply reflect supply and demand for such services in the market, and thus contend that there is no "shortage" of export financing or services. In fact, opponents argue the existence of some government trade promotion programs may impede greater involvement by private-sector firms in the provision of export services.

Many critics of Government trade programs oppose the use of export subsidy programs (such as those under the Eximbank and Department of Agriculture) to counter the export subsidy programs of other countries. While the objectives of these programs are to counter the effects of subsidies on the economic competitiveness of certain U.S. firms and to induce nations to refrain from using subsidies to promote exports, they entail a cost to other sectors of the U.S. economy and to U.S. taxpayers.

Legislative Outlook

Action by the 104th Congress on agricultural export programs will be influenced somewhat by the terms of the Uruguay Round, a multilateral trade agreement that became effective on January 1. The Uruguay Round agreement required a reduction in export subsidies. Subsidy outlays must drop by 36 percent and the quantity of subsidized exports must drop by 21 percent, over a six-year period. Legislation to implement the trade agreement was enacted late in 1994. That legislation reauthorized the leading program that will have to meet the new reductions, the Export Enhancement Program (EEP). The legislation did not, however, include authorization levels.

In his budget for FY 1996, President Clinton proposed funding export subsidy programs at the maximum level allowed under the Uruguay Round. He proposed funding EEP at $959 million, which is actually an increase from the FY 1995 appropriation. In future years, however, EEP funding will have to decline to meet the trade agreement's terms. In his budget proposal, President Clinton also submitted higher levels of funding for export promotion programs than were allowed under the Uruguay Round. Thus, to some extent, future cuts mandated by the Uruguay Round might be offset by higher funding for "greenbox" activities.

The 104th Congress is expected to consider funding levels for agricultural export promotion programs in an omnibus 1995 Farm Bill. Every five years or so, an omnibus farm bill reauthorizes various agricultural programs. The last bill was approved in 1990, and one will be considered this year. It is uncertain whether Congress will support the funding levels proposed by the President. Senator Richard Lugar, Chairman of the Senate Agriculture Committee, has said that he will seek a "bottom up" examination of agriculture programs, looking at programs one by one.[53] There might be considerable scrutiny of agricultural export programs.

The Congress is expected to give much attention to the budgets of nonagricultural export promotion programs as well. House Budget Committee Chairman, John Kasich, has identified possible reductions in Federal spending to offset the lower taxes proposed in the House Republican "Contract with America." Among the cuts identified were a 50 percent reduction in funding for the Eximbank and a similar cut for ITA export promotion programs. Administration officials have responded by arguing that these programs are critically important to securing overseas contracts.[54]

---

[53] Evans, Eddie. *Republican Congress to Re-Examine Farm Spending.* Reuters, December 7, 1994, 5:19 PET.

[54] See, Garten Seeks to Head Off GOP Pressure for Cuts to Export Promotion. *Inside U.S. Trade*, January 13, 1995. p. 12; and, Brody Warns of Market Share Losses Resulting from GOP Budget Cuts. *Inside U.S. Trade*, January 20, 1995. p. 12.

TRADE POLICY IN AN ECONOMIC PERSPECTIVE

Congressional consideration of recent trade agreements included a fundamental debate about the costs and benefits of trade liberalization—a debate that may be resumed in the 104th Congress. The main thrust of U.S. trade policy in the postwar era has been to reduce barriers to trade. The rationale for trade liberalization, based on economic theory and the experience of the U.S. and other economies, has been that removal of barriers promotes economic efficiency and raises the economic well being of all countries. While concerns about the adjustment costs of trade liberalization have led some observers to question the basic rationale for U.S. trade policy, most economists support removal of barriers to trade.

THE ECONOMIC RATIONALE FOR TRADE LIBERALIZATION[*]

There is no notion more central to economics than that of the "gains from trade." This is true whether one talks of trade among individuals, regions, or nations. In each case free exchange improves the economic welfare of the participants as a whole. It follows that the removal of barriers to free exchange will raise economic well being. Yet, while the economic fruits of free exchange are readily accepted for economic transactions within a nation's borders, this is far less true when one comes to the matter of trade among nations. Man–made barriers to trade are most prevalent for transactions between nations. Whether or not to remove such barriers is the central issue of trade policy.

If nations stand to be richer with free trade why have barriers been erected?[55] First, while free trade may raise the well–being of the nation it does not necessarily raise the welfare of particular industries, groups, or individuals. Free trade enriches by guiding scarce resources toward more efficient uses, but this will also mean that resources will also be guided out of less efficient uses. Firms and individuals in the latter circumstance will often find their economic well being reduced, even as the wider economy's welfare is increased. To the extent that those who stand to lose from trade are politically more focused and more capable of influencing public policy, trade barriers have been erected to protect their interests. Second, even among those who may have nothing directly to gain from trade restrictions, there is perhaps an inclination to think that exchange between nations is fundamentally different than exchange within a nation and often requires some degree of protection to secure national advantage. The great popularity of the notion of "competitiveness" is a manifestation of this mind set. In this case, trade is seen as a "zero sum" game where one nation's gain must be another nation's loss.

---

[*] By Craig Elwell, Economics Division, CRS

[55] From time to time, national governments use trade barriers to secure non-economic goals. For example economic sanctions to serve foreign policy, national security, and public health goals. Such actions are usually not an enduring, significant source of trade restrictions among nations.

BEST COPY AVAILABLE

Trade is Mutually Beneficial

While a country's exports do compete with exports from other countries on the world market, each country is an export market and a supplier of desirable imports for other countries. This complete interaction among countries is best characterized as a "positive sum" game with "mutual gain", rather than as competition. One nation's gain is most often not at the other nation's expense. A more prosperous rest-of-the-world does not make the United States worse off. The Nation's standard of living is not threatened by other countries' good fortune. More likely their good fortune will provide enhanced opportunities for U.S. exports as well as an augmented selection of quality goods at lower cost for domestic consumers. Both raise living standards in the United States.

In the "zero-sum" framework exports become a measure of national advantage and imports a measure of national disadvantage. From this framework, it is easy to conclude that policies to promote exports and discourage imports will enhance a nation's economic well-being. From the economist's perspective of trade as a "positive sum game", quite the opposite conclusion emerges. Exports are the means (the cost) of acquiring desirable imports. To promote the former and discourage the latter must lower our *economic* welfare.

In the post-war period, economic experience has confirmed what economic theory predicted: the expansion of trade, promoted by the removal of barriers, has generated economic gains to all trading nations. The sizable reduction of trade barriers by the industrial economies in the 1950s and 1960s contributed importantly to that period's fast-paced economic growth. In the 1970s and 1980s several developing economies, most notably in East Asia, adopted outward-looking trade policies as part of a successful program for rapid economic growth. Most recently, there have been major trade liberalization initiatives in the European Union, NAFTA, and the Uruguay Round, and most projections suggest each will secure sizable economic gains for the participating nations.[86]

Source of the Gains from Trade

A number of economic forces give rise to the mutual gains from international trade.

First, international trade, like domestic trade, allows a country to specialize in the production of goods and services which it does relatively well. This is known as the doctrine of *comparative advantage*. Since a country (or an individual) cannot do everything with equal proficiency, trade allows specialization and greater efficiency. By concentrating on what one does relatively well and trading for goods that one is relatively less efficient at producing, a nation can consume more of all goods than is possible without trade. (These gains are possible even if a nation has an absolute disadvantage in the production of all traded goods and services. This doctrine, first articulated by David Ricardo in 1817, explains why an attorney who is also the best secretary in the world still would hire someone to do his typing and why, in the 1800s, Britain exported cloth in exchange for wine from France.

---

[86] For example see: U.S. Library of Congress. Congressional Research Service. *A Reappraisal of the Economic Effects of the 1994 GATT Agreement*. Report No. 94-288 E, by Craig Elwell and Alfred Reifman. Washington, 1994; Lustig, Nora, Barry Bosworth, and Robert Lawrence. *Assessing the Impact of North American Free Trade*. Washington, Brookings Institution, 1992; and, Baldwin, Richard. The Growth Effects of 1992. *Economic Policy*, October 1989. p. 247-281.

Trade is also enriching because it allows successful traders to take advantage of the *economies of scale*. The longer production run a firm has, the lower its costs may be. Many products require huge initial investments in research and development as well as large investments in highly specialized physical plant and equipment; the ability to reach a larger world market through trade liberalization can greatly reduce the average production cost and the final price consumers must pay for that product. This is important even for a country with a large internal market, such as the United States.

In addition to comparative advantage and scale economics, the increased globalization of markets that comes from reducing barriers and expanding trade increases the *flexibility* of the United States. The economy's ability to respond quickly and efficiently to rapidly changing world market conditions is enhanced by improved access to foreign markets, technologies, and capital resources. Further, expanding trade increases the *competitive pressures* in the market place, pushing firms to cut waste, keep prices down, and raise quality—clear benefits to the nation's consumers.

These several forces give rise to what economists call the "static gains from trade" — that is, the one–time increment to the nation's economic welfare that arise from the more efficient allocation of resources afforded by free trade. Trade liberalization may also generate "dynamic" gains that are harder to measure, but are perhaps many times larger than the static gains. Dynamic gains may result from a sustained, but not necessarily permanent, acceleration of the economy's rate of growth, generating income gains that multiply in each subsequent year.

Dynamic effects grow out of an improved environment for investment and innovation that trade liberalization fosters. Improved efficiency and lowered risk of government intervention on trade matters raise the rate of return to investment, inducing a rise in the capital stock and, in turn, an acceleration in the nation's medium–term rate of economic growth. Similarly, trade liberalization expands the market for innovation, raising the expected rate of return to successful innovation and spreading research and development costs more widely. Expanding the scope of competition to a wider world market can force firms to accelerate the pace of innovation, or risk business failure. Moreover, open trade enhances the exchanges of technical knowledge among nations as goods and human and physical capital move more freely. A higher pace of innovation will likely have a strong effect on the nation's growth rate.

The Problem of Adjustment Costs

While trade liberalization will likely lead to *net* gains for the nation, the adjustment to the more efficient allocation of resources will impose significant costs on particular workers and sectors of the economy. These costs involve the retraining and relocating of workers in declining industries and the shifting of capital. The costs are often overstated in popular discussion, but they are significant nevertheless. To a large degree, the forces of the market will facilitate such adjustment, but there may also be considerable scope for public policy to provide temporary support and facilitate retraining and relocation. Such government actions may be necessary to make securing the benefits of free trade politically palatable. However, while adjustment is costly, the efficiency cost of protecting jobs is far higher. A recent study estimates that for the United States, the average cost to the consumer per job saved by protection is about $170,000, many times the average wage in the protected industries.[67]

Is Free Trade Always the Best Policy?

There are theoretical exceptions to the economic case for free trade. Numerous theoretical models have been devised over the decades that demonstrate that a deviation from free trade policy would, via a special program of subsidization and protection, enhance national economic well-being beyond the free trade outcome. The most recent manifestation of such an exception is the case for government promotion of so called "strategic industries." But like all previous "exceptions" to the free trade doctrine, this approach is less than compelling on a practical level. First, there is the tremendous problem of accurately *identifying* such industries. Second, there is the problem of devising a "promotion" program that does not create costly distortions in resource allocation. Third, there is the problem of avoiding a nullifying retaliation by one's trading partners. Fourth and most important, the evidence usually shows that the potential gains from such policies are not large and often not sufficient to offset the direct cost of such a program. In the end, such policy deviations from free trade carry the substantial risk of doing more harm than good. We are then left with the insight that if not always best in theory, free trade is most often the best policy in practice.

What Trade Policy Will Not Do

While trade liberalization will make the nation richer, it will not change the size of the trade deficit, nor will it change the total level of employment.

---

[67] Hufbauer, Gary Clyde and Kimberly Ann Elliott. *Measuring the Costs of Protection in the United States*. Washington, D.C., Institute for International Economics, 1994. p. 3-13.

The Trade Deficit

The trade deficit occurs not because of a systemic inability of the United States to sell goods on the world market, but because of macroeconomic conditions at home requiring more imports than exports to satisfy domestic demand. In effect, the United States spends beyond current production, and a net inflow of goods and services from abroad (a trade deficit) fills the gap. This excess of demand occurs because the United States continues to save less than is needed to finance domestic investment. That domestic imbalance leads to the trade imbalance.

The investment undertaken by an economy will be equal to the saving — income not used for public and private consumption — that is available to finance it. However, neither the level of saving available nor the level of investment undertaken need be limited by domestic sources or uses in the domestic economy. In an open world economy, a nation which finds that domestic saving falls short of domestic investment, will attract through an increase in domestic interest rates an inward flow of foreign saving (financial capital) to help finance domestic investment. Such a nation becomes a net importer of foreign saving, using that borrowed purchasing power to acquire foreign goods — a trade deficit — to meet domestic demand for consumption and investment. The United States has been in this category for well over a decade and that condition will not be changed by the removal or imposition of trade barriers.

Jobs

Popular discussions of trade policy do not proceed too far before the issue of jobs arises. Are jobs being created, or are jobs being lost? This likely reflects the common sense perception that if foreign goods enter the American economy they must displace domestic production and employment. In this view, trade barriers can be seen as protecting jobs, whereas trade liberalization eliminates jobs. This is an incorrect view, however. Sound economic thinking recognizes that the total level of employment in the economy is a macroeconomic phenomenon rooted in the domestic forces governing the aggregate supply of labor — the number of people who want to work. The U.S. economy is fully capable of fully employing that labor force with or without trade. Trade and trade liberalization will likely alter the composition of employment among industries, but it does not affect the level of employment. Trade raises the efficiency of any given level of employment, raising national income and economic welfare, but in the aggregate, it does not create or lose jobs.

While trade liberalization does not affect overall employment it *could*, in theory, have an adverse effect on wages. Some observers are concerned that recent poor performance of real wages, especially for low-skilled workers, is the consequence of expanding trade with developing countries. It is a plausible economic conjecture that trade, by effectively expanding the supply of low-skilled workers, would reduce the wage of those workers in the United

States. While plausible, several studies have not been able to detect such an effect. In part, this may reflect that U.S. trade with low-skill, low-wage economies remains a small fraction of total trade. In addition, as suggested above, trade liberalization also generates important scale and dynamic effects that likely work to boost worker wages. The United States does have a real wage problem. The evidence available so far does not show trade to be a substantial source of that problem, however.

THE ROLE OF TRADE IN THE U.S. ECONOMY[*]

Two major trade agreements in as many years and soaring trade deficits signal to many Americans a heightened degree of importance of international trade in the U.S. economy. For some, the links between trade, especially trade deficits, and the loss of manufacturing jobs in the U.S. economy seem self-evident. Rising imports are seen to represent a decline in demand for U.S. goods and for the workers who are employed to produce them. Despite these impressions, it has not been demonstrated that the trade deficit increased the level of unemployment in the U.S. economy. International trade, similar to other sectors, helps determine the overall rate of growth in the economy and the overall composition of employment.

The U.S. trade deficit in the 1980s arose directly from the combination of monetary and fiscal policies the United States chose to pursue. In a global economy with highly integrated capital markets, macroeconomic policies are the most important force determining the overall trade balance and the composition of employment in the economy. As a share of real gross domestic product (GDP), however, trade has remained quite small. One common measure of the importance of trade in the economy is the value of U.S. exports of goods and services expressed relative to the size of GDP. According to this measure, trade was equivalent to 12 percent of U.S. GDP in 1994.

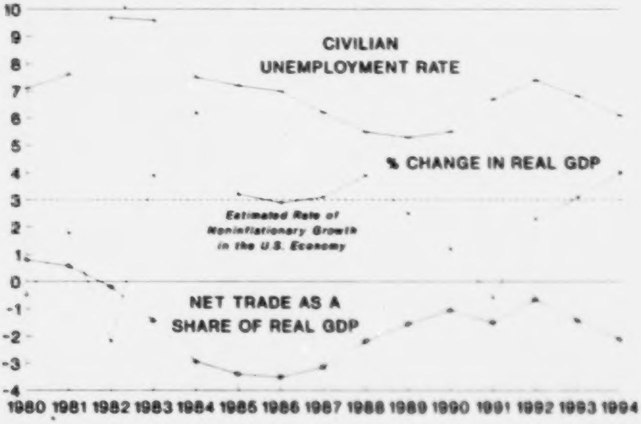
A more accurate estimate of the impact of trade in the economy is given in the national income accounts, where exports add to national aggregate demand and imports subtract from aggregate demand. The impact of trade, then, is the difference between exports and imports, or the net impact on overall aggregate demand in the economy. This method is consistent with the concept of gross domestic product and eliminates double counting. By this measure, net trade as a share of real GDP has varied within the range of plus one percent to a negative four percent during the 1980-1994 period, as indicated in figure 3. The numerical size of net trade in the economy changes as the other components of national aggregate demand also change. Figure 3 also shows the change in real GDP year over year, the civilian unemployment rate, and the estimated rate at which the U.S. economy can grow over the long term without increasing inflationary pressures in the economy.

---

[*] By James K. Jackson, Economics Division, CRS

It is important to consider how jobs in the economy are created, what role trade plays in this process, and what limits the growth in job creation. The level of employment in the economy in the short run is determined by total demand; in the long run the amount of employment offered in the economy is limited by the supply of labor. If the demand for labor increases too rapidly, inflationary pressures rise. This means there is a trade off between employment and inflation. As a result, there is a certain unemployment rate, or the natural rate of unemployment, which is consistent with a stable rate of inflation, or the non-accelerating-inflation rate of unemployment. The natural rate of unemployment is currently estimated to lie between about 5.6 percent and 6.0 percent.[58] In fact, from 1988 to 1990 (when the economy was running large trade deficits) and again in 1994, the Nation's unemployment rate fell within or slightly below this range, as indicated in figure 3.

FIGURE 3. Civilian Unemployment Rate (%); Change in Real U.S. GDP (%); Net Exports (Exports less Imports) As a Share of RGDP (%)
1980-1994



Source: *Survey of Current Business*

Because of limited amounts of labor and capital in the short run, attempts to reduce unemployment permanently below the natural rate will cause continuously increasing inflation, which eventually will be arrested by slowing the economy. The noninflationary rate of growth is the rate of growth the economy can sustain over the long term without creating inflation. Most economists estimate the noninflationary rate of growth at between 2.5 and 3.0 percent (indicated by the dashed line in figure 3), representing a combination of the annual rate of change in productivity and in labor force growth. When the economy is at full employment, economic growth greater than 2.5–3.0 percent will exert upward pressure on wages rather than downward pressure on unemployment. As a result, policies that affect aggregate demand have little more than a short-term, marginal effect on the unemployment rate, because they push the economy more quickly toward full employment and toward rising inflation.

---

[58] The natural rate of unemployment, or the nonaccelerating rate of unemployment, varies over time depending on conditions in the labor market. Since 1965, estimates of the natural rate of unemployment have varied between 5.6 and 6.0 percent. U.S. Congressional Budget Office. *The Economic and Budget Outlook: Fiscal Years 1993-1997*. Washington, U.S. Govt. Print. Off., 1992. p. 113.

Since the economy is ultimately constrained by the amount of labor and capital that is available, the trade sector's contribution to growth in the economy is linked with how other sectors of the economy are performing, or with overall aggregate demand. Typically, personal consumption and business investment spending are the two most important sources of growth in the economy. In 1994, these two categories accounted for 85 percent of national GDP. Personal consumption alone accounted for two-thirds of GDP. The same macroeconomic conditions that affect growth in the these two sectors of the economy also affect growth in the internationally traded goods sector of the economy. The traded goods sector, then, cannot be considered in isolation from the rest of the economy. Indeed, those factors which cause the rate of unemployment in the economy to rise and fall also cause the net trade balance to rise and fall.

As the rate of growth in the economy rises, the unemployment rate falls and net trade as a share of real GDP falls as imports rise relative to exports, as is evident in figure 3. The rapid pace at which other sectors of the economy grew in 1994, for instance, sparked the growth in imports, which increased the merchandise trade deficit. According to recent estimates, the U.S. economy grew at a 4.0 percent in 1994 (real GDP), or above the predicted long-term sustainable rate for the second year in a row, the unemployment rate dropped from 6.7 percent to 5.4 percent, and the net trade deficit grew to about 2.0 percent of GDP. As a share of GDP, the net trade deficit has grown since 1992, but it is still less than the shares reached in the 1984 and 1988 period.

APPENDIX

TABLE A1. U.S. Exports, Imports, and Merchandise Trade Balance, 1950–1994 (Census basis)
($ billions)

Year	Exports f.a.s. basis[a]	Imports Census basis[b]	Trade Balance Census basis
1950	10.0	8.9	1.1
1955	14.3	11.4	2.9
1960	19.6	15.0	4.6
1965	26.7	21.4	5.3
1970	43.2	40.0	3.2
1971	44.1	45.6	-1.5
1972	49.9	55.6	-5.7
1973	71.9	69.5	2.4
1974	99.4	103.3	-3.9
1975	108.9	99.3	9.6
1976	116.8	124.6	-7.8
1977	123.2	151.6	-28.4
1978	145.8	173.3	-27.5
1979	186.3	207.1	-20.8
1980	225.6	241.3	-15.7
1981	238.7	261.0	-22.3
1982	216.4	243.9	-27.5
1983	206.6	258.0	-52.4
1984	223.1	325.7	-102.6
1985	219.2	345.3	-126.1
1986	227.5	370.0	-142.5
1987	252.9	405.9	-153.0
1988	322.7	441.3	-118.6
1989	363.8	473.4	-109.6
1990	393.0	496.0	-103.1
1991	421.8	488.9	-67.0
1992	447.5	532.1	-84.5
1993	465.1	580.6	-115.6
1994	512.7	663.8	-151.1

[a] Exports are valued on the f.a.s. basis, which refers to the free–alongside–ship value at the port of export and generally includes inland freight, insurance, and other charges incurred in placing the goods alongside the carrier at the port of exportation.

[b] Imports are valued as reported by the U.S. Customs Service. (Excludes import duties, the cost of freight, insurance, and other charges incurred in bringing merchandise to the United States.)

Source: U.S. Department of Commerce. Bureau of the Census.

TABLE A2. Current Account Balances, 1975 to 1994
($ billions)

Calendar Year	Merchandise trade balance[a]	Services balance[b]	Investment Income Balance[c]	Net unilateral transfers[d]	Current account balance[e]
1975	8.9	3.5	12.8	-7.1	18.1
1976	-9.5	3.4	16.1	-5.7	4.3
1977	-31.1	3.8	18.1	-5.2	-14.3
1978	-33.9	4.2	20.4	-5.8	-15.1
1979	-27.6	3.0	30.9	-6.6	-0.3
1980	-25.5	6.1	30.1	-8.3	2.3
1981	-28.0	11.9	32.9	-11.7	5.0
1982	-36.5	12.3	29.8	-17.1	-11.4
1983	-67.1	9.3	31.1	-17.7	-44.5
1984	-112.5	3.3	30.0	-20.6	-99.7
1985	-122.2	0.1	19.7	-23.0	-125.4
1986	-145.1	6.3	11.8	-24.2	-151.2
1987	-159.6	7.7	7.9	-23.0	-167.1
1988	-127.0	12.1	11.6	-25.0	-128.2
1989	-115.2	25.0	13.6	-26.1	-102.8
1990	-109.0	30.2	20.7	-33.7	-91.7
1991	-74.1	45.6	14.8	6.7	-7.0
1992	-96.1	55.7	4.5	-32.0	-67.9
1993	-132.6	56.8	3.9	-32.1	-103.9
1994	-166.4	60.0	-15.2	-34.1	-155.7

[a] On a balance-of-payments basis.

[b] Includes travel, transportation, fees and royalties, insurance payments, other government and private services, and investment income.

[c] Income receipts on U.S. assets abroad minus income payments on foreign assets in the United States.

[d] International transfers of funds, such as private gifts, pension payments, and government grants for which there is no *quid pro quo*.

[e] The trade balance plus the service balance plus investment income balance plus net unilateral transfers, although conceptually equal to the current account balance, may differ slightly as a result of rounding errors.

* Preliminary figures

Source: U.S. Department of Commerce. *Survey of Current Business*, June 1994 and various issues.

TABLE A3. Top 20 U.S. Trading Partners Ranked by Trade Turnover: 1994
($ billions)

Country	U.S. Exports	U.S. Imports	Total Trade	Trade Balance
Canada	114.3	128.9	243.2	-14.7
Japan	53.5	119.1	172.6	-65.7
Mexico	50.8	49.5	100.3	1.3
United Kingdom	26.8	25.1	51.9	1.8
Germany, West	19.2	31.7	51.0	-12.5
China	9.3	38.8	48.1	-29.5
Taiwan	17.1	26.7	43.8	-9.6
Korea, South	18.0	19.7	37.7	-1.6
France	13.6	16.8	30.4	-3.2
Singapore	13.0	15.4	28.4	-2.3
Italy	7.2	14.7	21.9	-7.5
Hong Kong	11.4	9.7	21.1	1.7
Malaysia	7.0	14.0	20.9	-7.0
Netherlands	13.6	6.0	19.6	7.6
Belgium	10.9	6.3	17.3	4.6
Brazil	8.1	8.7	16.8	-0.6
Thailand	4.9	10.3	15.2	-5.4
Saudi Arabia	6.0	7.7	13.7	-1.7
Australia	9.8	3.2	13.0	6.6
Venezuela	4.0	8.4	12.4	-4.3

Source: Compiled from official statistics of the U.S. Department of Commerce by CRS using Tradenet. Aggregate 1993 trade data by country, sorted by trade turnover (exports plus imports).

U.S ECONOMIC, TRADE, AND FINANCIAL RELATIONS WITH ASIA: A STATISTICAL OVERVIEW

SUMMARY

The dynamic level of economic growth that has occurred in several Asian nations in recent years has made that region an increasingly important source for international trade and investment flows. This report provides a statistical overview of the following Asian nations: Japan, China, Hong Kong, Taiwan, South Korea, Indonesia, Malaysia, the Philippines, Singapore, Thailand, India, Australia, and New Zealand. The growing importance of this region to the United States in economic terms is reflected in the data.

- In nominal dollar terms using exchange rates, the 1993 combined gross domestic product of the Asian nations ($6,435 billion) was roughly equivalent to U.S. GDP ($6,374 billion). However, the actual purchasing power of Asian GDP was $7,848 billion.

- Per capita GDP in purchasing power parities (PPPs) indicate that U.S. living standards are higher than those of any Asian nation. PPP measurements also show that living standards in several Asian countries are higher than are reflected by data which measures per capita GDP in U.S. dollars using nominal exchange rates.

- Many Asian nations are currently enjoying rapid economic growth relative to the United States, European Union, and other regions of the world. This trend is likely to continue in the near future, making Asia an increasingly important center for trade and investment.

- One factor behind Asia's rapid economic growth has been the high level of savings and investment that exists in many Asian countries. Gross domestic savings and investment as percentages of GDP total 30 percent or more in seven Asian countries.

- Between 1982 and 1992, the total combined trade (exports plus imports) of the major economies of Asia grew by 324 percent. The world share of trade of the major Asian economies grew from 18.9 percent in 1982 to 37.6 percent in 1992.

- The percentage of total U.S. exports going to Asia increased from 25.4 percent in 1983 to 29.6 percent in 1993. U.S. imports from Asia as a percent of total U.S. imports grew from 33.5 percent to 41.7 percent.

- From 1982 to 1992, about 15 percent of U.S. direct investment abroad was invested in Asia. Conversely, Asia accounted for 32 percent (mostly from Japan) of foreign direct investment in the United States.

- U.S. direct investment in Asia is concentrated more heavily than in other regions in the petroleum (19 percent) and wholesale trade sectors (16 percent). Manufacturing accounts for 39 percent of investments.

U.S. Economic, Trade and Financial Relations with Asia: a Statistical Overview, by James K. Jackson and Wayne M. Morrison. Washington, Congressional Research Service, 1994. 31 p. (CRS Report no. 94-590 E, July 19, 1994)

U.S. ECONOMIC, TRADE, AND FINANCIAL RELATIONS WITH ASIA: A STATISTICAL OVERVIEW

The dynamic economic growth that has occurred in several Asian nations over the past decade has made Asia increasingly important to U.S. economic interests. In recent years, Asia has become one the world's fastest growing economic regions. From 1985 to 1990, Asia's annual real GDP averaged 4.6 percent. In 1993, Asia's real GDP growth slowed to 2.7 percent, mainly due to Japan's economic recession. However, real GDP growth for the major developing Asia countries (excluding Japan, Australia, and New Zealand) was 7.5 percent. Rapid economic growth in Asia has substantially boosted domestic spending for consumption and domestic investment (such as infrastructure development) in the region, which has generated increased demand for imports. Living standards in many Asian countries have also risen rapidly, increasing the level of demand for certain types of consumer products, high-value manufactures, capital goods, and various types of business services.

Asia's economic development has boosted U.S. trade with the region. Over the past 10 years, U.S. exports to Asia grew by over 163 percent, while imports increased by nearly 180 percent. In 1993, Asia accounted for nearly 30 percent of U.S. exports and close to 42 percent of U.S. imports. U.S. trade with Asia exceeds that with Canada, the European Union, or Latin America.

Many Asian countries are expected to continue to experience healthy rates of economic growth (relative to other regions) in the years ahead, which means that Asia (especially developing Asia) will likely continue to grow in importance as a destination for U.S. exports, both in terms of total exports and as a percentage of overall U.S. exports.

U.S. direct investment in the region remains small relative to that in Europe and Latin America. About 32 percent of foreign direct investment in the United States over the past 10 years came from Asia, mostly from Japan.

The purpose of this report is to provide a statistical overview of U.S. economic, trade and investment relations with the major economic nations of Asia, including Japan, China, Hong Kong, Taiwan, South Korea, Singapore, Malaysia, the Philippines, Indonesia, Thailand, India, New Zealand, and Australia.[1] All references to Asia, hereafter (unless otherwise noted) refer to these nations. Data are presented with bulleted summary statements describing the significance and trends of U.S. economic relations with Asia.

---

[1] Although Australia and New Zealand are not technically part of Asia, they are often classified by various organizations as Asian countries (or part of the Asia-Pacific Rim area) for the purpose of reporting trade and investment data.

ECONOMIC DATA[2]

GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) provides a broad economic measurement of the value of a nation's domestically produced goods and services. Per capita GDP is a commonly used measurement to make international comparisons of living standards.

In order to compare U.S. GDP with other nations, a standard of measurement (currency) is needed, such as U.S. dollars. One method of converting foreign data into U.S. dollars is to use nominal exchange rates. However, such measurements may be misleading because exchange rates fluctuate widely from year to year, and the magnitude of those fluctuations bears little correlation with changes in real GDP. In addition, such measurements do not adequately reflect differences in prices that exist across nations. Hence, a measurement of GDP is needed which factors in the cost of living (prices) and eliminates the distorting effects of volatile exchange rates.

Purchasing power parities (PPPs) are rates of currency conversion that equalize the purchasing power of different currencies. That is, they indicate the purchasing power one currency would have to purchase a similar level of goods and services in another country. PPPs are calculated by making international comparisons of prices for various goods and services. This involves choosing a "basket of goods and services" that is considered to be representative of typical consumer purchases of each country, then making measurements of the amount of goods and services each currency (expressed in dollars, for example) would be able to purchase. The resulting PPP measurements provide a more accurate method for making international comparisons of GDP since they more precisely reflect the actual material *purchasing power* of the GDP of various nations in their home markets relative to U.S. GDP.

The difference in using nominal exchange rates as opposed to using PPPs to measure GDP in dollars is illustrated in the following example. Japan's 1993 GDP expressed in nominal exchange rate dollars was $4,243 billion. However, because prices for domestic goods and services are generally higher in Japan than the United States, the actual purchasing power of Japan's GDP was $2,534 billion.[3]

Table 1 provides data on GDP and per capita GDP using nominal exchange rates and PPPs for the Asian nations, the United States, and other regions of the world.

---

[2] Prepared by Wayne M. Morrison, Analyst in International Trade and Finance.

[3] DRI/McGraw-Hill estimates that, on average, prices in Japan are 68 percent greater than in the United States.

- In nominal dollar terms using exchange rates, the 1993 combined GDP of the Asian nations ($6,435 billion) was roughly equivalent to U.S. GDP ($6,374 billion) and that of the EU ($6,374 billion). However, the actual purchasing power of combined Asian GDP was $7,848 billion, 23 percent higher than that of the United States or the EU.

- PPP data indicate that several developing Asian countries have much higher GDPs than is reflected by data which uses nominal exchange rates. For example, China's 1993 GDP using nominal exchange rates was $520 billion. However, expressed in PPPs, China's GDP was $1,847 billion. This measurement would make China the world's third largest economy after the United States and Japan.

- Japan's 1993 per capita GDP in nominal exchange rate dollars was $34,181, 38.6 percent higher than that of the United States ($24,664). However, in terms of actual *purchasing power*, Japan's per capita GDP (PPPs) was actually worth $20,335. This indicates that U.S. per capita GDP (PPPs) is actually 21.2 percent higher than Japan's, and is greater than that of any other Asian country.

- Hong Kong maintains the highest living standards (per capita GDP in PPPs) among the Asian nations, followed by Japan, Singapore, Australia, New Zealand, and Taiwan.

- PPP data indicate that living standards in several developing Asian countries are much higher than reflected by per capita GDP using exchange rates. For example, in 1993, the actual purchasing power of India's $292 per capita GDP (exchange rate U.S. dollars) was $1,196 (PPPs).

TABLE 1. Gross Domestic Product and Per Capita GDP in Nominal U.S. Exchange Rate Dollars and Purchasing Power Parities (PPP) For Asia, the United States and the EU: 1993

	Gross Domestic Product ($Billions)		Per Capita GDP ($)	
	Nominal Exchange Rates	Purchasing Power Parities	Nominal Exchange Rates	Purchasing Power Parities
Hong Kong	$109	$122	$18,570	$20,969
Japan	4,259	2,534	34,181	20,335
Singapore	50	52	17,746	18,410
Australia	278	309	15,861	17,660
New Zealand	43	49	12,386	14,945
Taiwan	221	402	10,521	10,154
South Korea	324	402	7,345	9,124
Malaysia	64	172	3,335	8,951
Thailand	117	342	1,971	5,761
Indonesia	139	617	716	3,171
Philippines	55	152	840	2,306
China	520	1,847	436	1,550
India	256	1,046	292	1,196
Total Selected Asia	6,435	7,848	2,452	2,996
Developing Asia*	1,854	5,011	748	2,003
United States	6,374	6,374	24,664	24,664
European Union	6,374	5,795	18,369	16,754

*Excludes Japan, Australia, and New Zealand.

Source: DRI\McGraw Hill, *World Markets Country Summaries*, First Quarter 1994, various pages.

ECONOMIC GROWTH

As indicated in table 2. Asia over the past years has become one of the world's most dynamic regions for economic growth.

- Average annual real GDP growth in Asia from 1980-1985 and 1985-1990 was 3.8 percent and 4.6 percent, respectively. These rates of growth were significantly faster than those in the United States, the EU, and most other regions of the world.

- In 1993, Japan's real GDP grew by only 0.2 over the previous year. The EU's real GDP decreased by 0.4 percent. However, the developing Asian nations (excluding Japan, Australia, and New Zealand) grew by 7.5 percent.

- Asia's annual GDP is projected to increase by 4.6 percent in 1994 and 3.5 percent in 1995. However the developing Asian nations are projected to grow even faster: 6.8 percent in 1994 and 6.3 percent in 1995. This indicates that developing Asia is likely to be the world's fastest growing economic region in the near future.

TABLE 2. Annual Average GDP Growth For Asia and Selective Regions: 1980-2000, Actual and Projected (%)

	Actual			Projected		
	1980-1985 Average Annual Rate	1985-1990 Average Annual Rate	1993	1994	1995	1995-2000 Average Annual Rate
Japan	3.8%	4.6%	0.2%	0.3%	3.6%	2.8%
China	10.0	6.0	13.0	10.3	7.9	8.0
Taiwan	6.7	8.7	6.7	6.5	6.5	6.3
South Korea	8.4	10.2	4.3	6.5	7.1	6.5
Indonesia	5.0	6.2	6.6	6.8	7.0	6.2
Malaysia	5.1	6.8	7.2	6.8	6.8	6.5
Philippines	-1.3	4.6	1.5	3.0	4.4	5.5
Singapore	6.2	7.9	6.2	5.7	5.8	4.4
Thailand	5.6	9.9	7.2	7.9	7.1	6.1
India	5.4	6.1	5.1	5.6	5.7	5.5
Australia	3.3	3.0	0.2	0.3	3.6	2.8
New Zealand	3.0	0.6	2.7	2.7	2.9	3.1
Total Asia	**3.8**	**4.6**	**2.7**	**4.6**	**3.5**	**4.2**
Developing Asia[a]	6.2	6.9	6.7	6.8	6.3	5.9
United States	2.5	2.7	2.9	3.6	1.9	2.5
European Union	1.5	3.1	-0.4	1.0	2.5	3.0
Non-EU Europe[b]	2.1	3.0	0.2	1.6	2.5	2.8
Latin America[c]	0.7	1.5	3.9	4.6	4.6	5.0
Middle East & Africa[d]	2.4	0.9	4.9	3.3	2.8	4.1

[a] Excludes Japan, Australia, and New Zealand.

[b] Includes Austria, Finland, Norway, Sweden, Switzerland, and Turkey.

[c] Includes Argentina, Brazil, Chile, Columbia, Ecuador, Mexico, Peru, and Venezuela.

[d] Includes Algeria, Egypt, Iran, Kuwait, Nigeria, and Saudi Arabia.

Source: DRI\McGraw Hill, *World Markets Executive Overview*, First Quarter 1994, p. 51.

SAVINGS AND INVESTMENT

One factor that has been attributed to the sharp rate of economic growth that has occurred in several Asian countries has been the high rate of savings and investment in such countries. A high rate of domestic savings enables nations to finance a high level of domestic investment, which in turn can generate high rates of economic growth (due mainly to increases in productivity resulting from investment). In addition, a high savings rate can enable a country to finance its own domestic investment without having to borrow capital from abroad. Table 3 indicates gross domestic savings and investment as percentages of GDP. These data indicate that savings and investment rates in most Asian countries are far above the world average and those of the United States. Gross domestic savings and investment as percentages of GDP total or exceed 30 percent in seven Asian countries.

TABLE 3. Gross Domestic Savings and Investment as a Percentage of GDP for the World, the United States and Selected Asian Nations: 1992

	Gross Domestic Savings as a % of GDP	Gross Domestic Investment as a % of GDP
World	22%	22%
United States	15	16
Japan	34	31
China	38	37
Taiwan	28	24
South Korea	35	40
Indonesia	36	35
Malaysia	30	36
Philippines	15	22
Singapore	46	40
Thailand	34	36
India	22	24
Australia	19	20
New Zealand	20	19

Sources: World Bank, *World Development Report 1994*; and Asian Development Bank, *Asian Development Outlook 1992.*

TRADE[4]

WORLD TRADE RANKINGS FOR ASIAN COUNTRIES

Table 4 provides data on total trade (exports plus imports) for the United States and Asian countries for 1982 and 1992. These data indicate that several Asian countries have experienced rapid growth in trade over the past ten years.

- Between 1982 and 1992 Asian trade grew from $668 billion to $1,819 billion, a 172 percent increase.

- Asia's share of world trade rose from 18.9 percent in 1982 to 24.1 percent in 1992.

- The U.S. and Japanese share of world trade over the past 10 years remained constant at 13.2 percent and 7.6 percent, respectively. However the share of trade for the developing Asian economies rose from 9.6 percent in 1982 to 15.1 percent in 1992. Trade by the developing Asian countries grew by 237 percent.

- World rankings for total trade for many Asian nations rose over the past 10 years. For example, China went from being the 21st largest trading nation in 1982 to the 11th largest in 1992. Its total trade over this period rose by 311 percent.

---

[4] Prepared by Wayne M. Morrison, Analyst in International Trade and Finance.

TABLE 4. Asian Trade: Total Trade, Percentage of World Trade, and Trade Rankings, 1982 and 1992
($Billions)

	1982			1992			
	Total Trade	Percent of World Trade	World Ranking	Total Trade	World Ranking	Percent of World Trade	1982/1992 % Increase In Trade
Asia	**$668**	**18.9%**	–	**$1,819**	–	**24.1%**	**172%**
Japan	270	7.6	3	572	3	7.6	112
•New Zealand	11	0.3	53	19	60	0.3	68
Australia	49	1.4	16	87	22	1.2	79
Developing Asia	338	9.6	–	1,140	–	15.1	237
Hong Kong	44	1.3	18	243	10	3.2	449
China	41	1.2	21	168	11	2.2	311
S. Korea	46	1.3	17	156	13	2.1	239
Taiwan	42	1.2	19	154	14	2.0	267
Singapore	49	1.4	15	134	15	1.8	173
Malaysia	25	0.7	34	81	23	1.1	229
Thailand	16	0.4	45	73	25	1.0	372
Indonesia	39	1.1	22	61	26	0.8	57
India	24	0.7	35	44	34	0.6	84
Philippines	13	0.4	50	27	44	0.4	99
United States	467	13.2	1	1,000	1	13.2	114
World	3,535	100	–	7,549	–	100	114

Total trade is exports plus imports (c.i.f. basis)

Rankings and calculations performed by CRS.

Source: International Monetary Fund, *Direction of Trade Statistics*. Data obtained by CRS using Tradenet.

U.S. TRADE WITH ASIA COMPARED WITH OTHER REGIONS

Asia has become an increasingly important destination for U.S. exports and source for U.S. imports, as indicated in tables 5 and 6.

- Asia constitutes the largest regional destination for U.S. exports and the largest source of U.S. imports.
- From 1983 to 1993, U.S. exports to Asia rose from $52.3 billion to $137.7 billion, an increase of $85.4 billion or 163.2 percent.
- U.S. exports to Asia as a percentage of total U.S. exports rose from 25.4 percent in 1983 to 29.6 percent in 1993.
- U.S. imports from Asia also grew sharply relative to other regions of the world, rising from $86.5 billion in 1983 to $241.9 billion in 1993, an increase of $155.4 billion or 179.6 percent.
- U.S. imports from Asia as a percent of total imports rose from 33.5 percent in 1983 to 41.7 percent in 1993.

TABLE 5. U.S. Exports to Asia and Other Regions of the World: 1983 and 1993 ($Millions)

	1983		1993		
	U.S. Exports	As a % of Total U.S. Exports	U.S. Exports	As a % of Total U.S. Exports	1983/1993 % Growth in U.S. Exports
World	$205,639	100.0%	$464,858	100.0%	126.1%
Asia	**52,312**	**25.4**	**137,704**	**29.6**	**163.2**
Canada	42,971	20.9	100,190	21.6	133.2
Africa	7,666	3.7	9,286	2.0	21.1
Latin America	25,532	12.4	78,477	16.9	207.4
European Union	47,652	23.2	96,967	20.9	103.5
Other Western Europe	7,426	3.6	16,698	3.6	124.9
Former USSR and Eastern Europe	2,887	1.4	6,069	1.3	110.2
Middle East	11,827	5.8	16,841	3.6	42.4
All Other	7,346	3.6	2,636	0.6	-64.1

Source: U.S. Department of Commerce. Calculations made by CRS.

TABLE 6. U.S. Imports From Asia and Other Regions of the World: 1983 and 1993 ($Millions)

	1983		1993		
	U.S. Imports	As a % of Total Imports	U.S. Imports	Imports as a % of Total	1983/1993 % Growth in U.S. Imports
World	$258,060	100.0%	$580,469	100.0%	124.9%
Asia	**86,501**	**33.5**	**241,883**	**41.7**	**179.6**
Canada	52,130	20.2	110,921	19.1	112.8
Africa	14,420	5.6	14,786	2.5	2.5
Latin America	41,725	16.2	74,396	12.8	78.3
European Union	45,712	17.7	98,007	16.9	114.4
Other Western Europe	8,176	3.2	17,599	3.0	115.3
Former USSR and Eastern Europe	1,357	0.5	3,523	0.6	159.6
Middle East	7,134	2.8	15,396	2.7	115.8
All Other	895	0.3	3,959	0.7	342.3

Source: U.S. Department of Commerce. Calculations made by CRS.

U.S.-ASIAN TRADE BY COUNTRY

Tables 7, 8, and 9 provide data on U.S. trade with each Asian country for 1983 and 1993.

- In 1993, eight of the top 20 destinations for U.S. exports were Asian countries. Nine of the top 20 sources of U.S. imports were Asian nations.

- The top three Asian destinations for U.S. exports in 1993 were Japan, Taiwan, and South Korea.

- The U.S. export ranking of 10 of the 13 Asian countries surveyed increased. For example, Hong Kong went from being the United States' 19th largest export market in 1983 to the 11th largest in 1993. Japan's ranking for U.S. exports remained unchanged, while the export rankings for the two remaining Asian countries decreased.

- The top three Asian sources of U.S. imports in 1993 were Japan, Taiwan, and China.

- The U.S. import ranking of seven Asian countries increased during this period. For example, China went from being the 23rd largest source of U.S. imports in 1983 to the 4th largest in 1993. Two Asian country import rankings remained unchanged, while four others fell.

- The U.S. trade deficit with Asia rose sharply, from $34.2 billion in 1983 to $104.2 billion in 1993, a 204.7 percent increase.

- Japan and China accounted for a significant share of the U.S. trade deficit with Asia in 1993.

- The U.S. trade deficit with China rose from $71 million in 1983 to $22.8 billion in 1993. The U.S. trade deficit with Japan over this period rose from $19.6 billion to $59.3 billion.

- In 1993, the United States maintained trade surpluses with Australia, Hong Kong and New Zealand.

TABLE 7. U.S. Exports to Asian Nations for 1983 and 1993: Totals, Rankings, and % Change ($Millions)

	1983		1993		
	Exports	Rank For U.S. Exports	Exports	Rank For U.S. Exports	1983/1993 % Change in Exports
Japan	$21,600	2	$47,949	2	122.0%
Taiwan	4,401	12	16,250	6	269.2
Korea South	5,710	10	14,776	7	158.8
Singapore	3,686	15	11,676	10	216.8
Hong Kong	2,563	19	9,873	11	285.2
China	2,173	21	8,767	13	303.5
Australia	3,916	13	8,272	14	111.2
Malaysia	1,678	28	6,064	18	261.4
Thailand	906	35	3,768	24	315.9
Philippines	1,793	26	3,529	25	96.8
Indonesia	1,446	31	2,770	29	91.6
India	1,827	25	2,761	31	51.1
New Zealand	613	46	1,247	41	103.4
Total Selected Asia	52,312	--	137,704	--	163.2

Countries listed in order of U.S. export rank in 1993.

Source: U.S. Department of Commerce.

TABLE 8. U.S. Imports From Asian Nations for 1983 and 1993:
Totals, Rankings, and % Change
($Millions)

	1983		1993		1983/1993 % change
	Imports	Rank For U.S. Imports	Imports	Rank For U.S. Imports	
Japan	$41,183	2	$107,268	2	160.5%
China	2,244	23	31,535	4	1,305.3
Taiwan	11,204	6	25,105	6	124.1
Korea South	7,148	7	17,123	8	139.5
Singapore	2,868	18	12,796	11	346.2
Malaysia	2,124	26	10,568	12	397.6
Hong Kong	6,394	8	9,558	13	49.5
Thailand	967	40	8,542	14	783.4
Indonesia	5,285	11	5,439	20	2.9
Philippines	2,001	28	4,895	23	144.6
India	2,191	25	4,551	24	107.7
Australia	2,222	24	3,294	27	48.2
New Zealand	730	45	1,208	44	65.5
Total Selected Asia	86,501	--	241,883	--	179.6

Countries listed in order of U.S. import rank in 1993.

Source: U.S. Department of Commerce.

TABLE 9. U.S. Trade Balances With Asian Countries:
1983 and 1993
($Millions)

	1983	1993
Japan	-19,583	-59,318
China	-71	-22,768
Taiwan	-6,803	-8,855
Korea, South	-1,436	-2,347
Singapore	818	-1,121
Malaysia	-446	-4,504
Hong Kong	-3,831	315
Thailand	-61	-4,773
Indonesia	-3,838	-2,669
Philippines	-206	-1,366
India	-364	-1,790
Australia	1,694	4,978
New Zealand	-117	39
Selected Partner countries	-34,249	-104,179

Source: U.S. Department of Commerce.

ASIAN TRADE WITH SELECTED WORLD REGIONS

Table 10 indicates the combined level of trade (exports plus imports) by the Asian countries with various regions of the world for 1982 and 1992.

- Asia's trade with the United States as a share of its total trade fell slightly, 20.3 percent in 1982 to 20.1 percent in 1992.

- Asia's trade with the Middle East as a share of its total trade fell sharply, from 14.1 percent in 1982 to 5.1 percent in 1992, due mainly to falling petroleum prices.

- The share of Asian trade with the developing Asian countries grew from 24.8 percent in 1982 to 34.9 percent in 1992. Japan's share of Asia's trade fell slightly over this period from 11.9 percent to 11.8 percent, indicating that most of the increase in trade by the Asian countries with developing Asia has been between the developing Asian countries.

TABLE 10. Asian Trade with Various Countries and Regions: 1982 and 1992 ($Billions and % of Total Trade)

	1982		1992	
Asian Trade Partner	Total Asian Trade	% of Total Asian Trade	Total Asian Trade	% of Total Asian Trade
World	$665.9	100%	$1,820.0	100%
Industrial Countries	346.3	52.0	973.4	53.5
United States	135.1	20.3	365.8	20.1
Japan	79.2	11.9	214.0	11.8
European Union	74.1	11.1	266.7	14.7
Other Industrial	57.9	8.7	126.9	7.0
Developing Countries	302.1	45.4	793.2	43.6
Europe	4.3	0.6	10.4	0.6
Western Hemisphere	22.9	3.4	44.6	2.5
Middle East	94.1	14.1	92.8	5.1
Asia*	165.4	24.8	634.4	34.9
Africa	15.5	2.3	15.5	0.9
Former USSR, Eastern Europe, and Other	14.6	2.2	14.6	0.9

* Includes all the developing countries of Asia (based on IMF regional definitions).

Total trade is exports plus imports (c.i.f. basis).

Source: International Monetary Fund, *Direction of Trade Statistics*. Data obtained by CRS using Tradenet.

U.S. FINANCIAL AND INVESTMENT RELATIONS WITH ASIA[5]

The following tables provide data on direct investment flows between the United States and Asia, the overall level, or position of direct investment, and the annual amounts of bilateral financial flows reported in the U.S. balance of payments. The United States defines direct investment as the ownership or control, directly or indirectly, by a single person (individual, branch, partnership, associated group, association, estate, trust, corporation, or any government) of 10 percent or more of the voting securities of an incorporated business enterprise or the equivalent interest in an unincorporated business enterprise.[6]

---

[5] Prepared by James K. Jackson, Specialist in International Trade and Finance,

[6] 15 CFR § 806.15(a)(1).

TABLE 11. U.S. Direct Investment Abroad - Capital Outflows, 1982-1992
($Millions)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Total	3,835	6,686	11,649	12,724	17,706	28,980	17,871	37,604	27,705	32,096	37,122
Canada	-339	878	3,260	76	2,491	6,099	2,653	1,258	3,471	1,164	3,257
Europe	106	5,122	5,578	7,573	7,292	11,297	7,854	23,679	8,544	18,928	13,409
France	-103	155	177	944	394	1,008	1,663	1,584	1,053	2,092	2,836
Germany	-73	632	357	213	1,070	644	-1,873	2,522	1,464	6,133	1,571
Netherlands	-16	134	-118	569	3,304	2,000	1,391	3,112	-2,401	1,555	-2,355
Spain	85	198	-23	247	444	436	492	979	391	-16	1,359
Switzerland	241	1,454	779	387	220	1,652	-1,083	1,269	5,284	897	2,097
United Kingdom	-114	1,385	3,052	3,147	2,259	2,559	4,170	11,825	-629	3,359	3,545
Latin America	878	-3,002	774	4,203	7,287	8,132	6,042	9,094	9,510	6,870	13,673
Africa	683	23	320	-50	-161	301	-376	-554	-504	104	-1,045
Middle East	282	1,258	596	-74	73	237	-270	-473	563	660	1,085
Asia	1,523	2,234	1,638	675	1,390	3,047	2,584	4,375	6,223	4,390	6,560
Australia	41	250	165	299	-46	981	687	1,997	678	1,071	1,335
China	24	51	100	172	-98	112	103	100	32	54	44
Hong Kong	55	341	335	18	691	280	587	465	285	420	1,858
India	28	19	-3	43	51	61	53	(D)	(D)	73	52
Indonesia	1,041	474	932	220	37	-322	-138	-65	659	608	656
Japan	226	999	-245	333	343	1160	1036	299	844	244	867
Korea, Rep.	(D)	-122	124	42	58	156	141	332	312	194	-140
Malaysia	(D)	-88	-128	36	-91	-59	133	50	222	185	55
New Zealand	54	-36	-31	46	33	89	92	162	1962	-243	138
Philippines	61	129	-22	-242	42	-6	80	49	177	-27	-17
Singapore	-33	83	199	-79	193	179	-105	165	481	1127	1097
Taiwan	68	70	99	2	80	345	191	177	209	429	154
Thailand	50	115	213	-43	-1	183	-153	384	315	242	367

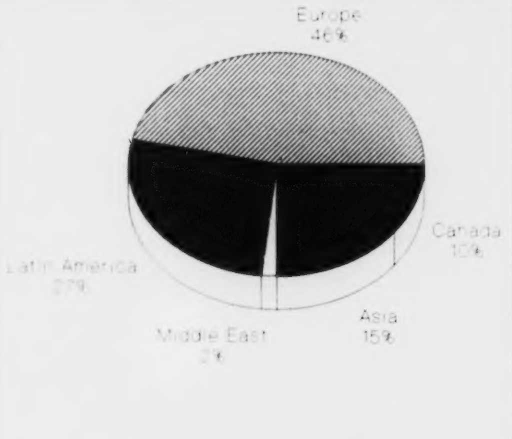
Note: (D) indicates that data have been suppressed by the Department of Commerce to avoid the disclosure of individual companies; an (*) indicates that values are less than $500,000.

Source: *Survey of Current Business*, various issues.

Table 11 shows the annual amounts of U.S. direct investment abroad to major regions of the world from 1982 to 1992. Figure 1 shows the distribution of U.S. direct investment capital outflows by share by major region.

BEST COPY AVAILABLE

FIGURE 1. U.S. Direct Investment Abroad Share by Region Total Capital Outflows, 1982-1992 (percent)



Source: *Department of Commerce*

- During the first half of the 1980s, U.S. direct investment abroad was moderate, reflecting the favorable investment climate in the United States. This trend was changed in the last half of the 1980s and into the 1990s, as U.S. firms have emerged as the largest foreign direct investors.
- During the 1982-1992 period, nearly half of all U.S. direct investment abroad was invested in Europe.
- About 15 percent of U.S. direct investment abroad was invested in Asia, the third most preferred region after Europe and Latin America.

TABLE 12. Foreign Direct Investment in the United States - Capital Inflows, 1982-1992
($Millions)

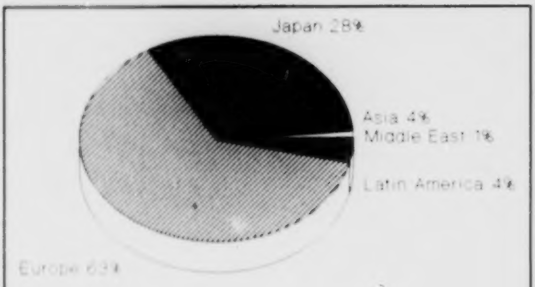
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Total	13,792	11,946	25,359	19,022	34,091	41,977	58,571	69,010	48,422	25,446	3,388
Canada	-1,331	215	3,294	911	2,547	959	1,852	1,793	1,821	2,383	-2,144
Europe	10,456	9,134	14,686	12,794	21,730	34,974	31,852	43,046	21,549	13,047	8
France	-196	-201	774	30	1,017	2,551	3,122	2,744	5,987	4,492	-488
Germany	419	1,007	1,291	2,292	1,982	2,403	2,245	3,738	585	2,167	1,389
Netherlands	3,434	2,778	3,520	2,776	4,374	7,871	6,137	7,823	7,163	1,008	-1,491
Sweden	48	358	216	236	1,396	744	-95	587	443	274	1,381
Switzerland	934	962	1,036	2,722	1,414	2,582	831	5,184	-633	1,490	528
United Kingdom	5,321	3,727	6,882	4,665	10,827	18,582	19,617	18,939	4,519	4,382	-2,808
Latin America	1,629	474	615	719	-332	-1,453	2,944	4,009	5,199	-1,513	841
Africa	NA	NA	NA	NA	NA	NA	-41	55	-8	90	-6
Middle East	798	16	791	-370	-68	193	1,376	900	-613	486	4
Asia	2,323	2,053	5,874	4,717	10,416	7,351	20,587	19,147	20,474	10,975	4,085
Australia	150	210	1,188	1,209	2,606	907	2,741	-81	1,279	-300	883
China	(D)	(D)	14	1	2	1	-61	98	37	4	-1
Hong Kong	52	82	306	2	41	187	86	388	269	339	5
India	1	5	4	3	-1	-7	-2	5	3	-15	-8
Indonesia	-3	2	18	33	-11	3	26	17	-13	2	35
Japan	1,977	1,653	4,374	3,394	7,268	6,161	17,206	18,653	18,754	10,880	3,980
Korea, Rep	54	-1	-24	-3	474	-181	353	-821	-698	333	46
Malaysia	-6	8	(*)	-5	23	-33	52	(*)	19	-14	18
New Zealand	-3	2	-46	20	29	91	-70	-47	66	(*)	-23
Philippines	25	14	5	-3	-5	9	5	6	-5	-28	8
Singapore	71	60	23	34	-73	189	119	471	370	-419	-22
Taiwan	5	-11	1	37	71	-38	131	421	356	312	7
Thailand	(*)	(*)	11	-5	-8	42	-6	28	55	-11	2

Note: (D) indicates that data have been suppressed by the Department of Commerce to avoid the disclosure of individual companies; an (*) indicates that values are less than $500,000.

Source: *Survey of Current Business*, various issues.

Table 12 shows the capital inflows associated with foreign direct investment in the United States during the 1982-1992 period.

FIGURE 2. Foreign Direct Investment in the United States Share by Region, Total Capital Inflows 1982-1992 (percent)



Source: *Department of Commerce*

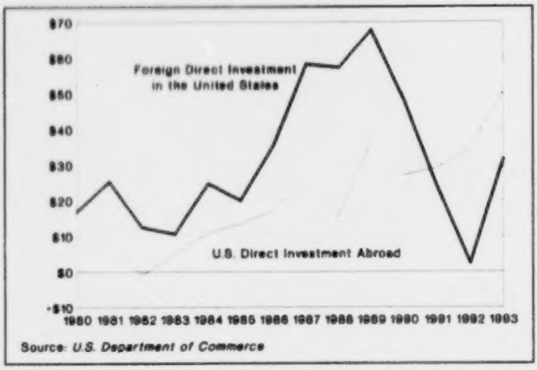
- European firms, as a group, continue to be the major foreign direct investors in the United States.

- Japanese firms became major foreign direct investors in the United States during the 1980s, rising from the fifth to the second largest investors, following United Kingdom investors.

- Other Asian (non-Japanese) investors account for 4 percent of the direct investment capital inflows during the 1982-1992 period, slightly ahead of Latin American investors.

BEST COPY AVAILABLE

FIGURE 3. U.S. Direct Investment Flows
(in Billions of U.S. Dollars)



Source: *U.S. Department of Commerce*

Figure 3 shows direct investment flows into and out of the United States from 1980 to 1993. The 1993 data are preliminary balance of payments data and subject to revision by the Department of Commerce.

- That foreign direct investment inflows generally increased during the 1980s and then dropped off between 1989 and 1992.
- According to recent balance of payments data, foreign direct inflows picked up again in 1993.
- The data also show that flows of U.S. direct investment abroad have generally increased since 1982, when U.S. firms pulled capital out of their affiliates abroad to invest in their parent firms in the United States.

TABLE 13. U.S. Direct Investment Position Abroad
on a Historical-Cost Basis, 1992
($Millions)

	All industries	Petroleum	Manufacturing	Wholesale trade	Banking	Finance (except banking), insurance, and real estate	Services	Other industries
Total	486,670	55,207	187,276	51,140	23,468	129,546	15,789	24,245
Canada	68,432	7,945	33,306	5,567	888	12,938	2,330	5,457
Europe	239,389	23,289	93,733	29,685	9,488	67,225	10,327	5,642
Latin America	88,860	4,559	26,727	3,342	7,731	40,537	1,066	4,898
Africa	3,518	1,523	980	103	133	467	84	248
Middle East	5,814	1,791	1,742	275	141	1,418	242	205
Asia	78,163	14,893	30,808	12,169	5,086	6,960	1,739	6,508
Australia	16,697	2,691	6,631	1,424	1,011	1,523	686	2,731
China	469	91	260	94	(*)	1	(D)	(D)
Hong Kong	8,544	385	2,243	2,914	932	1,291	349	430
India	479	(D)	201	23	233	(D)	15	(*)
Indonesia	4,278	3,686	138	46	(D)	13	(D)	294
Japan	26,213	4,768	11,920	5,424	200	2,707	584	609
Korea, Rep	2,779	67	1,140	276	1,122	165	25	-17
Malaysia	1,714	513	747	106	91	233	1	23
New Zealand	3,008	397	417	82	(D)	195	(D)	1,925
Philippines	1,565	(D)	1,021	126	340	(D)	(D)	64
Singapore	6,631	1,213	3,460	892	365	369	276	55
Taiwan	2,870	(D)	1,806	469	327	158	59	(D)
Thailand	2,459	774	783	254	230	(D)	47	(D)

Note (*) indicates that values are less than $500,000 (D) indicates that data have been suppressed by the Department of Commerce to avoid disclosing data of individual companies

Source *Survey of Current Business*, July 1993 p 101

BEST COPY AVAILABLE

Table 13 shows the U.S. direct investment position abroad for 1992, the most recent year for which data are available. The position is the total, or the cumulative, amount of investments U.S. firms have made abroad. These data represent the historical cost, or the book value of the investments at the time the investments were made. Most analysts believe the historical cost undervalues U.S. direct investments abroad because it does not account for the effects of inflation on asset values or of growth in the size and value of the foreign affiliates. The Department of Commerce estimates that at market value, U.S. direct investment abroad totals $776 billion, compared with $487 billion at book value. The direct investment position data indicate that:

- Half of all U.S. direct investments abroad are in Europe; eighteen percent are in Latin America; and 16 percent are in Asia.
- Nearly 40 percent of total U.S. direct investment abroad is in the manufacturing sector; 27 percent is in finance; 11 percent is in petroleum; and 10 percent is in wholesale trade. The rest of U.S. direct investments is in the banking and services sectors, and in other industries.
- U.S. direct investment in Asia is concentrated more heavily than in other regions in the petroleum (19 percent) and wholesale trade sectors (16 percent). Manufacturing accounts for 39 percent of investments.

TABLE 14. Foreign Direct Investment Position in the United States on a Historical Cost Basis, 1992 ($Millions)

	All industries	Petroleum	Manufacturing	Wholesale trade	Banking	Finance, except banking	Insurance	Real estate	Other industries
Total	419,526	38,545	159,492	66,203	22,848	10,962	34,030	35,244	52,202
Canada	38,997	1,342	17,313	2,307	2,095	1,803	3,691	4,816	5,631
Europe	248,461	30,015	113,595	27,092	9,877	-716	27,230	10,931	30,437
Latin America	18,895	2,334	5,784	2,906	1843	17	2294	2025	1693
Africa	635	(D)	(D)	(D)	-3	(D)	(*)	-56	(D)
Middle East	4,813	(D)	(D)	(D)	672	(D)	2	1,165	(D)
Asia	107,725	2,871	22,461	33,409	8,364	9,241	814	16,363	14,201
Australia	7,140	2,892	1,826	(D)	-290	(D)	165	352	1,941
Hong Kong	1,714	-2	184	988	241	250	2	169	-179
Japan	96,743	-13	19,149	31,761	7,882	9,760	587	15,429	12,190
Korea, Rep	-496	-2	76	(D)	118	(D)	(D)	11	(D)
Malaysia	54	(*)	22	49	-18	(*)	(*)	2	(*)
New Zealand	108	(*)	-10	125	2	-27	(D)	28	(D)
Philippines	59	(*)	5	-1	38	(*)	(D)	-2	(D)
Singapore	847	(*)	405	31	32	55	(*)	316	9
Taiwan	1,154	(*)	692	97	188	(D)	(D)	23	80

Note (*) indicates that values are less than $500,000 (D) indicates that data have been suppressed by the Department of Commerce to avoid disclosing data of individual companies

Source *Survey of Current Business*, July 1993

BEST COPY AVAILABLE

Table 14 shows the foreign direct investment position in the United States. These data are also on a historical costs basis. Since most foreign investments in the United States were made in the 1980s, however, they are not affected as much by the effects of inflation or growth as is U.S. direct investment abroad. The data suggest the following conclusions:

- Nearly 40 percent of foreign direct investment in the United States is in the manufacturing sector (about the same proportion as U.S. direct investment aborad); 16 percent is in wholesale trade. Foreign direct investment in petroleum, real estate, and insurance each comprise about 8 percent of the total; the rest is in banking, finance, and other industries.

- Direct investment from Asia is dominated by investments from Japan. These investments are more concentrated in wholesale trade (31 percent) than in manufacturing (21 percent); another 15 percent of investments is in real estate.

Tables 15, 16, and 17 provide the broad measures of U.S. economic transactions with Asia, including trade in goods and services and capital account transactions. Where "Asia" is indicated in the table, it refers to all Asian countries, except Japan, but includes Africa as well. Since U.S. trade and financial relations with Africa are small compared with Asia, the addition of these countries is unlikely to have a major effect on the overall flows between the United States and Asia. Since U.S. transactions with Japan dominate U.S. trade and financial transactions with Asia, transactions with Asia (table 16) and Japan (table 17) are presented separately.

TABLE 15. U.S. International Transactions: Asia* and Japan
($Billions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Exports of goods, services, and income	107.1	111.3	104.1	114.7	129.2	166.1	189.2	208.2	219.9	227.8	236.5
Merchandise exports, adjusted	66.6	68.0	63.3	68.6	77.1	105.2	120.0	127.0	137.5	144.7	152.1
Services receipts	24.7	25.3	25.7	30.8	33.6	36.3	41.2	48.8	56.0	61.3	64.0
Royalties and license fees receipts	1.2	1.4	1.5	1.9	2.5	3.2	3.7	4.2	4.7	5.1	5.8
Income receipts on U.S. assets abroad	15.8	18.0	15.1	15.3	18.4	24.7	28.0	32.5	26.4	21.8	20.4
Direct investment receipts	6.1	6.8	5.2	5.0	7.3	8.4	8.4	9.7	11.0	11.4	11.6
Other private receipts	7.2	8.4	7.0	7.0	8.3	12.2	17.7	17.6	12.7	8.3	7.0
Imports of goods, services, and income	-136.1	-172.4	-174.5	-206.0	-235.7	-259.0	-286.6	-291.4	-287.9	-309.0	-337.0
Merchandise imports, adjusted	-108.3	-136.5	-136.8	-163.2	-187.9	-202.8	-221.6	-225.0	-227.0	-249.3	-273.2
Services payments	-13.3	-19.2	-19.8	-22.9	-25.4	-26.9	-27.5	-31.7	-31.7	-33.5	-36.6
Royalties and license fees payments	-0.1	-0.2	-0.2	-0.3	-0.4	-0.5	-0.5	-0.6	-0.7	-0.8	-0.9
Direct investment payments	-1.0	-1.8	-1.6	-0.6	-0.4	-1.1	-0.4	1.2	2.4	2.3	1.1
U.S. assets abroad, net	-14.5	-5.1	-3.0	-26.3	-14.2	-47.5	-29.9	17.7	-1.2	-3.4	1.7
U.S. private assets, net	-11.3	-2.0	0.1	-25.6	-21.8	-49.4	-20.0	16.5	-4.0	-2.1	0.0
U.S. direct investment abroad	-2.0	0.5	-0.7	-0.7	-2.3	-2.1	-0.6	-1.7	-0.5	-5.3	-8.3
Foreign securities	-0.8	1.7	0.7	10.7	9.5	1.0	3.8	-3.6	-7.2	-6.3	-13.5
Claims on unaffiliated foreigners	-0.2	-0.1	0.5	-0.4	0.4	0.1	-0.5	-0.8	-0.6	0.0	0.0
Claims reported by U.S. banks	-7.0	-1.1	-0.7	-34.7	-29.0	-49.3	-21.9	26.5	7.9	9.5	24.3
Foreign assets in the United States, net	6.8	21.0	35.6	65.5	52.5	98.8	46.2	-21.8	23.7	55.7	64.0
Foreign official assets in the United States, net	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Other foreign assets in the United States, net	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Foreign direct investment in the United States	1.9	5.6	3.8	7.5	9.9	19.2	20.2	18.6	11.7	4.0	1.8
U.S. Treasury securities	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Securities other than U.S. Treasury securities	1.3	1.5	6.4	15.5	13.9	9.4	13.1	-3.3	12.0	5.0	27.9
Liabilities to unaffiliated foreigners	-0.1	-0.9	0.9	-0.8	2.2	1.3	1.8	3.9	-0.2	1.5	NA
Liabilities reported by U.S. banks	3.8	14.6	24.2	42.4	28.7	68.8	10.3	-43.3	-1.1	43.1	31.1

*Data include Africa

Source: *Survey of Current Business*, various issues

TABLE 16. U.S. International Transactions: Asia*
($Billions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Exports of goods, services, and income	75.3	76.3	70.5	71.8	81.6	102.9	111.6	123.4	135.8	147.0	156.4
Merchandise exports, adjusted	44.8	44.8	41.1	42.2	49.5	68.0	76.1	79.2	90.3	97.9	105.2
Services receipts	18.6	17.8	18.1	19.7	20.7	20.9	22.3	26.9	31.3	35.2	36.9
Royalties and license fees receipts	0.3	0.4	0.4	0.5	0.6	0.8	1.0	1.2	1.3	1.5	1.7
Income receipts on U.S. assets abroad	11.9	13.6	11.3	9.8	11.4	13.9	13.2	17.3	14.3	13.9	14.3
Direct investment receipts	5.3	6.0	4.4	3.3	5.3	5.8	6.3	8.0	8.4	9.3	9.8
Other private receipts	4.3	5.0	4.2	3.6	3.4	4.2	5.3	5.2	4.5	3.3	3.3
Imports of goods, services, and income	-83.5	-99.3	-94.4	-106.3	-128.4	-140.9	-159.1	-168.2	-167.0	-184.8	-200.9
Merchandise imports, adjusted	-65.0	-76.3	-71.2	-82.4	-103.3	-113.0	-128.1	-134.7	-134.7	-151.9	-166.0
Services payments	-8.8	-12.8	-13.2	-14.1	-15.8	-16.4	-16.7	-19.3	-18.5	-20.0	-21.6
Royalties and license fees payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment payments	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.2	0.3	0.5	0.1
U.S. assets abroad, net	-11.2	-6.0	2.1	-0.8	2.9	-5.9	-4.9	-4.4	8.9	-18.3	-16.1
U.S. private assets, net	-7.9	-3.0	3.7	-0.3	0.8	-9.0	-6.6	-8.8	7.8	-18.0	-16.9
U.S. direct investment abroad	-1.0	0.2	-0.3	-0.3	-1.2	-1.0	-0.3	-0.8	-0.2	-4.4	-7.0
Foreign securities	-0.4	0.2	1.3	2.8	3.2	0.5	1.1	-1.5	4.0	-2.7	-11.2
Claims on unaffiliated foreigners	0.1	0.0	0.4	0.0	0.3	-0.4	-0.4	-0.2	-0.4	0.2	NA
Claims reported by U.S. banks	-5.3	-0.4	2.0	-2.2	-1.1	-8.9	-6.3	-2.3	8.0	-11.2	1.6
Foreign assets in the United States, net	-0.1	4.4	4.2	14.5	8.5	12.4	22.5	2.7	21.4	39.3	24.6
Foreign official assets in the United States, net	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Other foreign assets in the United States, net	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Foreign direct investment in the United States	0.2	1.2	0.4	0.5	1.1	2.0	1.5	-0.2	1.1	0.1	-0.4
U.S. Treasury securities	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Securities other than U.S. Treasury securities	0.4	0.2	0.7	2.7	1.2	0.1	3.5	-1.0	5.1	9.1	12.2
Liabilities to unaffiliated foreigners	-0.3	-1.1	0.4	-1.3	0.9	0.1	1.3	2.1	-0.6	0.8	NA
Liabilities reported by U.S. banks	-0.5	3.5	2.3	11.8	7.5	10.3	15.5	-0.4	15.0	27.7	10.8

*Data include Africa

Source: *Survey of Current Business*, various issues

TABLE 17. U.S. International Transactions: Japan
($Billions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Exports of goods, services, and income	31.8	35.1	33.6	42.9	47.6	63.3	77.6	84.8	84.1	80.8	80.1
Merchandise exports, adjusted	21.8	23.2	22.1	26.4	27.6	37.2	43.9	47.8	47.2	46.9	46.9
Services receipts	6.1	7.4	7.6	11.1	12.9	15.4	19.0	21.9	24.8	26.1	27.1
Royalties and license fees receipts	0.9	1.0	1.1	1.4	1.9	2.5	2.7	3.0	3.4	3.5	4.0
Income receipts on U.S. assets abroad	3.9	4.4	3.8	5.5	7.0	10.7	14.8	15.1	12.1	7.9	6.1
Direct investment receipts	0.8	0.8	0.8	1.7	2.0	2.6	2.1	1.7	2.6	2.0	1.8
Other private receipts	2.9	3.4	2.9	3.4	4.9	8.1	12.3	12.4	8.2	5.0	3.7
Imports of goods, services, and income	-52.6	-73.1	-80.1	-99.7	-107.3	-118.1	-127.5	-123.2	-120.9	-124.2	-136.1
Merchandise imports, adjusted	-43.3	-60.2	-65.7	-80.8	-84.6	-89.8	-93.5	-90.4	-92.3	-97.4	-107.3
Services payments	-4.6	-6.4	-6.6	-8.7	-9.7	-10.5	-10.7	-12.3	-13.3	-13.5	-15.1
Royalties and license fees payments	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9
Direct investment payments	-1.0	-1.9	-1.5	-0.8	-0.6	-1.4	-0.7	1.0	2.1	1.8	1.0
U.S. assets abroad, net	-3.2	0.9	-5.1	-25.5	-17.0	-41.6	-25.0	22.1	-10.2	14.9	17.8
U.S. private assets, net	-3.4	1.0	-3.6	-25.3	-22.6	-40.4	-13.4	25.3	-11.8	15.9	16.9
U.S. direct investment abroad	-1.0	0.2	-0.3	-0.3	-1.2	-1.0	-0.3	-0.8	-0.2	-0.9	-1.3
Foreign securities	-0.4	1.5	-0.6	7.9	6.3	0.5	2.6	-2.1	-11.2	-3.6	-2.3
Claims on unaffiliated foreigners	-0.2	-0.1	0.1	-0.4	0.1	0.5	-0.1	-0.6	-0.3	-0.3	NA
Claims reported by U.S. banks	-1.8	-0.7	-2.7	-32.5	-27.9	-40.3	-15.6	28.9	-0.1	20.6	22.7
Foreign assets in the United States, net	6.9	16.6	31.4	51.0	44.0	86.4	23.6	-24.4	2.3	16.3	39.4
Foreign official assets in the United States, net	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Other foreign assets in the United States, net	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Foreign direct investment in the United States	1.6	4.4	3.4	7.0	8.8	17.2	18.7	18.8	10.7	4.0	2.2
U.S. Treasury securities	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Securities other than U.S. Treasury securities	0.9	1.3	5.7	12.8	12.7	9.3	9.6	-2.3	6.9	-4.1	15.8
Liabilities to unaffiliated foreigners	0.2	0.2	0.6	0.4	1.3	1.2	0.5	1.8	0.4	0.6	NA
Liabilities reported by U.S. banks	4.3	11.1	21.9	30.7	21.3	58.5	-5.2	-42.9	-16.1	15.4	20.3

Source: *Survey of Current Business*, various issues

BEST COPY AVAILABLE

CHINA: CURRENT U.S. SANCTIONS

SUMMARY

In the months following China's 1989 Tiananmen Square crackdown, both the President and the Congress took a number of initiatives protesting Beijing's actions. These initiatives centered around U.S. concerns related to trade, human rights, and non-proliferation. In intervening years, the United States has periodically imposed, lifted, or waived other sanctions and concluded several trade-related agreements with China relating to these concerns. Those measures that remain in place in 1995 are detailed in the accompanying tables.

Immediately after the Tiananmen crackdown, on June 5, 1989, President Bush ordered the following actions: suspension of all government-to-government military sales and commercial exports of weapons; suspension of visits between U.S. and Chinese military leaders; sympathetic review of requests by Chinese students in the United States to extend their stay; the offer of humanitarian and medical assistance through the Red Cross to those injured during the assault; and, review of other aspects of our bilateral relationship. On June 20, 1989, the President suspended high-level U.S. Government exchanges with Chinese officials, and directed American representatives at various international financial institutions to seek to postpone consideration of new loans for China. With the exception of the latter and the ban on weapons sales, none of these Presidential initiatives remains in effect today.

The State Department Authorization bill for FY1990-1991 (P.L. 101-246), remains the major congressional action tightening U.S. sanctions against China since Tiananmen Square. Under its provisions, the United States continues to prohibit sales to China of military equipment and weapons; export of U.S. satellites; Overseas Private Investment Corporation (OPIC) and Trade Development Agency (TDA) programs; export licenses for crime control and detection equipment; nuclear trade and cooperation; and liberalization of export controls on technology. In 1993, the Clinton Administration imposed sanctions banning the export of missile equipment or technology listed in the Missile Technology Control Regime (MTCR) Annex. These sanctions--which provided for some Presidential waiver authority--were lifted in November 1994. All sanctions provide some Presidential waiver authority.

In 1990, Congress turned to the annual most-favored-nation (MFN) request for China as a key opportunity to exercise influence over U.S. China policy and to air congressional grievances about specific Administration decisions. As a consequence of concerns raised during the MFN debate, the United States also has pursued, since 1992, a number of trade-related complaints against China. Those which have resulted in memoranda-of-understanding (MOU) include market access questions, intellectual property rights, and exports of prison-labor goods. While these are not sanctions per se, they concern possible retaliatory steps the United States could take in the future. Finally, in May 1994 President Clinton announced he was extending MFN status to China for another year but taking other punitive steps including banning imports of Chinese arms and ammunition and extending Tiananmen-related sanctions.

China: Current U.S. Sanctions, by Kerry Dumbaugh with the assistance of James Casey Sullivan. Washington, Congressional Research Service, 1995. 11 p. (CRS Report no. 94-92 F, April 14, 1995)

CURRENT U.S. SANCTIONS AGAINST CHINA

The United States currently maintains sanctions against China in 8 areas. In all but one of these cases, the sanctions were imposed shortly after the Tiananmen Square crackdown of 1989, in protest to China's actions. Most of these sanctions were statutorily imposed by Congress. All of the sanctions provide some type of waiver authority to the President.

1. Military equipment and weapons trade suspended (June 5, 1989, and February 16, 1990)

By Presidential action, June 5, 1989. The ban on weapons sales was first imposed by Presidential action on June 5, 1989, when President Bush announced he would prohibit all U.S. Government and commercial sales of military equipment and weapons. Congress later codified the prohibition in the State Department Authorization bill (H.R. 1487), which passed on January 30, 1990, and was signed by the President on February 16, 1990. It became P.L. 101-246, and is the primary source of existing U.S. sanctions against China.

P.L. 101-246 specifically prohibits the issuance of export licenses for items on the U.S. Munitions List, including helicopters and spare parts. It exempts from the prohibition those systems and components that are designed specifically for use in civil products, unless the President determines that the intended recipients of the articles are Chinese military or security forces. The law permits the President to waive this prohibition if important to the national interest or if he determines that China has made progress on a range of human rights issues specified in the law.

2. Export of U.S. satellites prohibited (February 16, 1990)

By congressional action, P.L. 101-246. The law specifically prohibits the export of "any satellite of United States origin" that is intended for launch from a Chinese launch vehicle. The law permits the President to waive the prohibition if important to the national interest or if he determines that China has made progress on a range of human rights issues specified in the law. On December 19, 1989, prior to the bill's passage, President Bush issued export licenses for 3 U.S. communications satellites for launch on Chinese vehicles under a "national interest" waiver authority contained in an earlier law, P.L. 101-162 (the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1990), which expired in September 1990. Since the new prohibition was enacted in P.L. 101-246, the President has used his waiver authority on at least 7 occasions to permit the export of U.S. satellites for launch in China.

The specificity of the satellite prohibition in P.L. 101-246 leaves no doubt that Congress intended the ban to extend to all U.S. satellites. According to a

State Department official, in practice, U.S. Administrations have considered waivers of the specific satellite ban to apply only to satellites with military-related components.

3. Overseas Private Investment Corporation (OPIC) and Trade and Development Agency (TDA) activities suspended (February 16, 1990)

By congressional action, P.L. 101-246. OPIC provides political risk insurance to U.S. businesses seeking to invest in developing and emerging markets. TDA finances capital project feasibility studies performed by U.S. companies in developing countries. As enacted by Congress, the law permits the President to waive this prohibition for national interest reasons or if he determines that China has made progress on a range of human rights issues specified in the law. To date, no waiver has been granted.

4. Export licenses for crime control and detection equipment prohibited (February 16, 1990)

By congressional action, P.L. 101-246. As enacted by Congress, the law prohibits the issuance of any license under section 6(k) of the Export Administration Act of 1979 -- now section 6(n) of that Act -- for the export to China of any crime control or detection equipment. The law permits the President to waive this prohibition for national interest reasons or if he determines that China has made progress on a range of human rights issues specified in the law.

5. Nuclear trade and cooperation suspended (February 16, 1990)

By congressional action, P.L. 101-246. The law's prohibition here is comprehensive, applying to any nuclear material, facilities, or components; to goods or technology which could be significant for or are likely to be diverted to nuclear explosive purposes; to transfer or retransfer of any nuclear materials, facilities, or components; and to assistance in any activities with regard to China relating to the use of nuclear energy under section 57b.(2) of the Atomic Energy Act of 1954. Provisions for terminating the prohibitions are stringent. The law requires three things: Presidential certification that China has provided unequivocal assurances that it is not assisting and will not assist any nonnuclear-weapons state in acquiring nuclear explosive devices; a Presidential report required by Public Law 99-183; and the national interest or human rights waivers findings required for termination of all suspensions in P.L. 101-246.

The Clinton Administration has recently decided to allow the sale of turbines and generators for Chinese nuclear power plants, and has determined that such a sale is not a violation of this sanction.

6. Termination of U.S. support for multilateral development loans to China except in cases of basic human need (June 20, 1989)

By Presidential action, June 20, 1989. The World Bank suspended its lending activities to China for 7 months following the Tiananmen Square crackdown, based on uncertainty that China would continue its economic reform program. In February 1990, the Bank made a loan for emergency earthquake assistance on humanitarian grounds. In July 1990, at the Houston summit, G-7 countries agreed on a policy of supporting World Bank loans for China that would promote economic reform and address "basic human needs" in China, but based on a definition more liberal than that contained in U.S. law. Since then, the United States has abstained on World Bank votes for loans to China that do not meet the restrictive statutory U.S. definition of "basic human need," which focuses on: growth with equity; a focus on the rural poor; food and nutrition; and population planning and health.

7. Export of and contracts relating to items on MTCR list limited (August 24, 1993) - *Lifted* November 1, 1994

By Presidential action, August 24, 1993. The Clinton Administration imposed sanctions on entities in China after determining that China had shipped to Pakistan M-11 missile-related equipment listed in Category II of the MTCR Annex. Section 73(a) of the Arms Export Control Act (P.L. 90-629) and Section 11B of the Export Administration Act (P.L. 96-72) require U.S. sanctions in the event of such a determination. "Category II" refers to a category in the MTCR annex which lists components, equipment, material, and technology related to missiles.

The August 24, 1993 sanctions were meant to deny for 2 years U.S. Government contracts with the sanctioned entity, and licenses for transfer to the sanctioned entity, for missile equipment or technology listed in the MTCR Annex. The law provided for a very restrictive waiver, permitting the President to waive the sanctions only if he determined it was "essential" to U.S. national security. U.S. officials did not comment publicly on the content of U.S.-China discussions on this issue in 1993 or early 1994, although according to one U.S. official, the U.S. Government did describe to Chinese officials exactly what they had to do in order to qualify for the national security waiver. On January 26, 1994, the United States began a series of nonproliferation discussions with China, led by Under Secretary of State Lynn Davis.

The August 24 sanctions also were an additional hurdle that satellite exports to China needed to clear. Although the MTCR Annex does not directly mention satellites, it does list components which might be found in satellites. Some satellites are on the U.S. munitions list because they contain items of concern to national security; export licenses for these satellites are controlled by the State Department. With respect to the August 24 sanctions, the Administration had determined that the sanctions law required the Department of State to deny for China all licenses for satellites containing MTCR Annex item components. But other satellites -- essentially commercial communications satellites that do not contain technology of concern to national security -- are controlled by the Department of Commerce. The Administration had determined that these satellites were not captured by the August 24 sanctions because Commerce regulations and practices do not treat licenses for satellites as licenses for their MTCR components. On January 7, 1994, the Administration determined that the Commerce Department could approve licenses for three communications satellites for export to China.

By Presidential action, November 1, 1994. The Clinton Administration effectively waived the August 24, 1993, sanctions against China. This waiver resulted from an October 4, 1994, joint U.S.-P.R.C. statement concerning missile proliferation. The statement called for both countries to work together, through a step-by-step approach, to promote the nonproliferation of missiles, and to promote a ban on the production of fissile materials for nuclear weapons.

As a first step, the United States agreed to lift the sanctions imposed on August 24, 1993. China agreed that once these sanctions were lifted it would not export ground-to-ground missiles featuring the primary parameters of the MTCR--i.e., missiles inherently capable of reaching a range of at least 300km with a payload of at least 500kg. This Chinese commitment reportedly represents a global ban on such exports.

On November 1, 1994, in accordance with the restrictive waiver provided for in the August 24, 1993, sanctions decision, the Department of State declared it was essential to the national security of the United States to waive the August 1993 sanctions with respect to China. As a result of the waiver, the U.S. Government will no longer be required to deny licenses for exports to, or prohibit U.S. Government contracts with, the P.R.C. relating to MTCR Annex equipment or technology.

8. Embargo on arms and ammunition imports (May 28, 1994)

By Presidential action, May 26, 1994. In his 1994 announcement extending MFN status to China, President Clinton announced he would prohibit the import of arms and ammunition from China. The embargo, which took effect on May 28, 1994, places a complete prohibition on the imports from China of articles on the Munitions Import List of the Bureau of Alcohol, Tobacco, and Firearms (BATF), including articles for which current valid import permits are held or articles which may be enroute. According to the U.S. Customs Service, such imports were projected to total approximately $200 million in 1994. Current information is that the only articles on the Munitions Import List that China has exported to the United States are ammunition, firearms, firearms parts and accessories (for example, rifle scopes), and gas masks.

Under several sets of U.S. Government regulations (the Department of State's International Traffic in Arms Regulations -- 22 CFR 126.1(a), and the Treasury Department's Regulations on the Importation of Arms, Ammunition, and Implements of War -- 27 CFR 47.52(a)), U.S. policy is to prohibit imports of defense articles from countries subject to a U.S. arms export embargo. According to the U.S. Customs Service, China has been exempted from this policy since 1989. The President's May 26 decision brings U.S. policy toward China into conformity with U.S. regulations.

Liberalizing export controls by COCOM suspended (Feb. 16, 1990; Status of sanction uncertain)

By Congressional action, P.L. 101-246. In the 1980s, the United States and the Coordinating Committee for Multilateral Export Controls (CoCom) gradually liberalized restrictions and controls on exports of some dual-use technology items to China, thus giving China different and more favorable treatment than the USSR and other controlled countries received. The export controls provision in P.L. 101-246 required the President to negotiate with CoCom to suspend further such liberalization. But the demise of CoCom in 1994 means that the entire context in which the provision was enacted has changed.

After the sanction took effect, CoCom did suspend further steps to liberalize controls for China specifically. However, from early 1990 through early 1994, CoCom substantially relaxed its export controls across-the-board in response to changes in the international security environment. China received higher technology exports under these relaxed controls, as did all other countries, the net effect being the virtual elimination of any CoCom differential in favor of China. On March 31, 1994, CoCom ceased to exist under the terms of a previous agreement by its member nations. Negotiations are now underway for a successor regime. Current plans are to open membership in the new regime to all countries, including China, based on their adherence to restrictions in nonproliferation regimes and their implementation of appropriate export control policies and an effective export control system.

In the interim, former CoCom nations have agreed to maintain the existing lists as the basis for national export controls. To help make the transition, the United States has established a new General License GLX for technology shipments to non-military end-users in formerly proscribed countries. The final rule was published in the Federal Register of April 4, 1994, p. 15621. The new licensing procedures will expedite exports to formerly CoCom-controlled destinations, including China, for civil users and uses, but will maintain strict licensing policies for all controlled countries on very sensitive items such as super-computers or other items with significant military applications. At this point, it is unclear how Members of Congress will interpret the new licensing procedures given the congressional intent in P.L. 101-246 to refrain from further liberalizing export controls to China.

TRADE-RELATED MEASURES

In addition to the above sanctions, since 1992 the United States has been active in pursuing a number of trade-related complaints against China. Although these are not sanctions *per se*, they do deal with possible retaliatory steps that the United States could take against China in the future to ensure compliance. They also echo the trade-related concerns and conditions Congress has considered in past MFN legislation.

1. MOU on market access (October 10, 1992)

On October 10, 1992, the United States and China signed an MOU that resolved a year-long Section 301 investigation into China's trade barriers to U.S. imports and forestalled the over $1 billion in retaliatory U.S. sanctions. The Section 301 investigation itself had been initiated as a result of the lack of progress on two earlier, related actions: the Bush Administration's April 1991 "market access" initiative, to convince China to reduce its trade barriers; and the Bush Administration's July 1991 decision to launch a special round of market-access negotiations with China. Those negotiations having failed to make progress, on October 10, 1991, the President directed the United States Special Trade Representative's office (USTR) to initiate a sweeping Section 301 case against a number of China's unfair trade practices. Over the next year, U.S. and Chinese officials held an additional 9 rounds of talks before reaching the 11th-hour agreement settling the case on October 10, 1992.

Under the MOU, China pledged to publish its trade laws and regulations; eliminate a range of tariff barriers including tariffs, quotas, import restrictions, import licenses, and import substitution laws; and establish a joint working group on standards and testing barriers to agricultural products. The United States pledged to "staunchly support" China's entry into the GATT and reduce export controls on computer and telecommunications equipment to China.

U.S. officials remain concerned about China's implementation of the MOU. On November 2, 1993, the USTR once again warned of sanctions if China failed to fully implement the agreement. On February 26, 1995, the U.S. and China reached an accord concerning intellectual property rights and market access. The market access aspect of this accord requires the Chinese government to provide U.S. intellectual property rights holders with enhanced access to the Chinese market.

2. MOU on exports of prison labor goods (August 7, 1992)

On August 7, 1992, the United States and China formally signed an MOU to ensure that products made by prison labor in China are not exported to the United States. The agreement came more than a year after the Bush Administration, in July 1991, pledged to increase U.S. Customs Service inspections of imported Chinese products, and after U.S. officials had begun to ban the release of Chinese imports suspected of being produced by forced labor. Under the MOU, China was to permit U.S. Customs officials to inspect Chinese prisons suspected of producing goods for export.

In early 1993, China did allow U.S. Customs officials to inspect two Chinese prisons, but thereafter denied further access. On January 20, 1994, during his visit to Beijing, Treasury Secretary Lloyd Bentsen announced that the United States and China had reached a new agreement to permit the inspections to go forward.

The import of prison-made goods has been prohibited under U.S. law since 1890 (Section 53 of the McKinley Tariff Act, 26 Stat. 567, 624 [1890], now found at 19 U.S.C., section 1307.) U.S. criminal law also provides fines and/or imprisonment for knowingly transporting prison-made goods into the United States.

3. U.S.-China Accord on the protection of intellectual property rights (IPR) and market access (February 26, 1995)

On January 16, 1992, the United States and China signed an MOU to resolve U.S. charges that China had failed to provide adequate protection for U.S. intellectual property. U.S. allegations of violations had surfaced formally in April 1991, when the USTR named China (along with India and Thailand) as priority countries that violate U.S. intellectual property rights under "Special 301" provisions of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418). On May 26, 1992, USTR initiated a formal investigation into deficiencies in China's intellectual property practices, then extended the investigation on November 26, 1991, after determining that insufficient progress had been made. At that time, USTR warned that trade sanctions would be enacted against certain Chinese imports if an agreement were not reached by January 16, 1992.

Under the January 1992 MOU, China agreed to strengthen its patent, copyrights, and trade secret laws; and agreed to improve protection of U.S. intellectual property, including computer software, sound recordings, and chemicals. Although China reportedly has made significant improvements in its

IPR legal regime, U.S. officials determined that the continued rampant piracy of U.S. copyrighted works and trademarks directly resulted from the Chinese government's failure to enforce its laws and regulations required under the 1992 MOU. The United States identified Chinese firms violating U.S. intellectual property rights, and pressed China to take legal action. On November 2, 1993, the USTR once again warned of sanctions if China failed to fully implement the agreement.

In June 1994, under the Special 301 provisions, the USTR initiated an investigation into China's intellectual property rights enforcement practices. On December 31, 1994, U.S. Trade Representative Kantor determined that China's IPR enforcement practices were unreasonable and burdened or restricted U.S. commerce. On February 4, 1995, despite ongoing negotiations, Ambassador Kantor announced that he was ordering the automatic imposition of 100% tariffs on over $1 billion worth of Chinese imports to begin on February 26. Continued negotiations culminated in an IPR accord committing China to: take immediate steps to address rampant piracy in China; make long-term changes to ensure effective enforcement of intellectual property rights; provide U.S. intellectual property rights holders with enhanced access to the Chinese market.

MOST-FAVORED-NATION (MFN) STATUS

4. China's MFN status (May 26, 1994)

Under U.S. law, China's eligibility for MFN status is subject to an annual renewal, which the President must request by June 3, and which automatically goes into effect if Congress does not enact a joint resolution of disapproval within 60 days. On May 28, 1993, President Clinton issued a Report to Congress and an Executive order which effectively continued China's unconditional MFN status for another year (through July 1994), but placed conditions on China's MFN status in succeeding years. On May 26, 1994, President Clinton announced he was recommending that China's MFN status be delinked from the human rights issue and extended for another year, through July 1995, despite Beijing's failure to meet the conditions set forth in his Executive order of the previous year. Acknowledging that China continued to commit very serious human rights abuses, the President also announced that he was taking the following steps:

- extending the sanctions imposed against China in 1989 and 1990 as a result of events in Tiananmen Square (described in this report);
- banning the import of munitions from China, principally guns and ammunition (described in this report); and

- inaugurating a new U.S. program to support those working for human rights improvements in China, to include: increased broadcasts for Radio Free Asia and the Voice of America; increased support for non-governmental organizations (NGOs) working on human rights in China; and working with American businesses to develop voluntary principles for business activity in China.

On August 9, 1994, the House of Representatives considered three measures relating to China's MFN status, and enacted one which essentially codified the President's initiatives. The first measure was **H.J.Res. 373** (Rep. Solomon), which would have disapproved President Clinton's recommendation that MFN be extended to China for another year. This resolution would have had to have been approved by both houses by August 31 before it could go into effect. Its August 9 defeat in the House, by a vote of 75 -356 effectively killed the measure for 1994.

The House also considered two alternative proposals addressing the issue of MFN for China. Under the rule, both measures were being offered as substitutes to the United States-China Act of 1994 (**H.R. 4590**, introduced by Representatives Pelosi, Bonior, and Gephardt). One substitute was identical to the bill itself. It required the Secretary of State to encourage American businesses to adopt the voluntary code of conduct mentioned above. In addition, the bill provided for two alternative provisions which essentially limited the bill's punitive measures to goods produced by Chinese government entities, while protecting MFN status for goods produced by China's private-sector entrepreneurs or joint ventures with foreign partners:

- it declared that even if Congress passed a joint resolution of disapproval, MFN status would be denied only to those imported products that are produced, manufactured, or exported by Chinese state-owned enterprises;

- it declared that if Congress did not pass a joint resolution of disapproval, MFN status would not be extended to imports of goods made or exported by the Chinese military or a defense industrial trading company, or to goods in most major product categories made or re-exported by Chinese state-owned enterprises.

The second substitute, offered by Representatives Hamilton, in effect codified the President's May 26 decision recommending MFN be extended to China, except for the President's initiative to prohibit imports of Chinese arms and ammunitions. The House adopted the Hamilton substitute by a vote of 280-152, and rejected the Pelosi substitute by a vote of 158-270. (See CRS Issue Brief #IB92094, *Most-Favored-Nation Status of the People's Republic of China.*)

OTHER CONGRESSIONAL MEASURES

In addition to the sanctions and trade-related measures described in this report, Congress has considered a number of other bills relating to China. Among those enacted are: the Chinese Student Protection Act of 1992 (P.L. 102-404), which permitted many Chinese students living in the United States to qualify for permanent resident status beginning July 1, 1993; and the U.S.-Hong Kong Policy Act of 1992 (P.L. 102-383), containing detailed U.S. policy prescriptions toward the territory. These cannot generally be described as "sanctions," and so have not been included in this report. For further information on these and other measures, please refer to the Additional Reading sources.

CHINA AND THE GENERAL AGREEMENT ON TARIFFS AND TRADE

SUMMARY

The Chinese Government has been negotiating since 1986 to accede to the General Agreement on Tariffs and Trade (GATT). It recently set a goal of acceding to the GATT by the end of 1994 and becoming a founding member of the World Trade Organization (WTO), which is expected to replace the GATT in 1995.

The GATT's emphasis on nondiscrimination, tariffs, and reduction of trade barriers implies trade based on market forces, rather than central planning. Consequently, in the past, the centrally planned economic systems of China, the former Soviet Union, and other non-market economy countries have been considered incompatible with the GATT system.

Economic reforms, which began in the late 1970s, have substantially transformed the Chinese economy and contributed to China's emergence as a major economic and trade power. Although significant vestiges of the old system remain, China is in transition away from central planning toward a market-oriented economy. Most importantly, trade reforms have made the economy more open to foreign trade and investment. Significant barriers to trade and investment remain, however.

The ambiguous nature of China's "socialist market economy," in which market reforms coexist with continuing heavy government involvement in the economy, raises serious questions about its compatibility with the world trading system. In bilateral and multilateral negotiations, China's trading partners have urged further market reforms and trade liberalization and special safeguards as conditions for Chinese membership in the GATT.

The conditions under which China accedes to the GATT will largely determine the benefits and costs for its economy and the effects on its trading relationships. Generally, GATT membership can be expected to improve access for foreign firms to the Chinese market and reduce barriers to Chinese exports. Such changes would bring both welfare and efficiency gains and adjustment costs for the Chinese and world economies. The adjustment costs could be softened by allowing China temporary exemptions from GATT rules and allowing China's trading partners to use special safeguards to protect against surges of Chinese exports. Such special transitory rules for China, however, could also limit the gains from trade liberalization.

China and the General Agreement on Tariffs and Trade, by George D. Holliday. Washington, Congressional Research Service, 1994. 21 p. (CRS Report no. 94-723 E, Sept. 12, 1994)

CHINA AND THE GENERAL AGREEMENT ON TARIFFS AND TRADE

An important part of the economic reforms that were initiated by the Chinese Government in the late 1970s is opening the economy to international trade and investment flows. To further the policy of opening, the Chinese Government applied to become a contracting party of the General Agreement on Tariffs and Trade (GATT) in 1986.[1] The Chinese intensified their efforts to accede to the GATT in 1992, and have recently set the goal of acceding by the end of 1994 and becoming a founding member of the World Trade Organization (WTO), which is expected to replace the GATT in 1995.

China's application has important implications for the Chinese economy. Chinese exports currently face a variety of quotas and other non-tariff barriers that severely limit future expansion. Accession to the GATT would help to improve access to foreign markets. Chinese economic reformers also see membership in the GATT as a way to promote economic reform. The GATT encourages market-oriented reforms and open trade policies. Membership in the GATT or the WTO also has symbolic importance for China's leaders: it is a sign of recognition of China's growing importance in the world economy.

U.S. firms which trade with China or compete with Chinese producers also have a strong interest in the negotiations over China's accession. Some U.S. producers will benefit as they gain better access to the rapidly growing Chinese market. For others, increased Chinese imports could result in significant adjustment costs. Since China has emerged as one of the United States' largest trading partners, the conditions under which China enters the GATT are of great concern to U.S. trade negotiators.

China's application also has important implications for the GATT and the future WTO. China is a major trading country, the tenth largest, and its trade is expanding rapidly, 10-15 percent per year (twice the rate of world trade). Some observers think that it is essential that a truly multilateral trade organization include such a major trading country. At the same time, many trade officials in the member countries believe that China's trade regime, which is still heavily regulated by the central government, is incompatible with the multilateral system. Unless it undertakes major reforms, they maintain, China's membership could undermine the principles which guide the multilateral system.

---

[1] The Chinese government insists that it is resuming its position as one of the original contracting parties of GATT in 1948. Since China has not actively participated in GATT since 1950, when the Chinese nationalist government withdrew, however, the U.S. Government and other contracting parties are treating China as a new applicant.

Consequently, the negotiations on China's application, in which U.S. negotiators have played a central role, have been long and difficult. The central issues in the negotiations are the kinds of reforms that China must undertake to make its economy and trading system compatible with the GATT and what special treatment, if any, other GATT members will accord to China.

This report discusses the compatibility of China's economic system with the GATT, the status of the ongoing negotiations on accession, and the possible effects of China's membership in the GATT.

THE GATT AND NONMARKET ECONOMY COUNTRIES

Since 1948, GATT has provided a framework of principles guiding the conduct of international trade and a forum for negotiating trade disputes. Central features of the GATT framework are nondiscriminatory trade treatment; reliance on tariffs, rather than non-tariff barriers when it is necessary to protect domestic producers; adherence to negotiated tariff rates at fixed maximum levels; and settlement of disputes through consultation and conciliation. GATT has promoted a reduction of trade barriers through eight rounds of negotiations that have reduced tariffs and established rules that discourage non-tariff barriers. The most recent round of negotiations, the Uruguay Round, includes a significant reduction in tariffs, new rules that provide greater discipline to nontariff barriers, extension of trade rules to new areas such as services and agriculture, and the creation of a new organization, the World Trade Organization (WTO).

GATT's emphasis on nondiscrimination, tariffs, and reduction of trade barriers implies trade based on market forces, rather than central planning. That is, GATT rules apply primarily to market economies, in which decisions about the allocation of resources and production are made on the basis of market prices. Market prices are determined in voluntary exchanges between producers, consumers, workers, and owners of land and capital. A market economy exists when economic decisions are made independently by individuals in the economy, not by central planners in the government. Consequently, in the past, the centrally planned economic systems of China, the former Soviet Union, and other non-market economy countries have been considered incompatible with GATT.

For example, GATT rules encourage tariffs in preference to other trade barriers, because tariffs, even though they restrict trade, allow market prices to work. Foreign firms, if they are efficient enough, can still compete with domestic firms despite tariffs. Tariffs are also transparent: the degree of protection that they provide is readily apparent to foreign firms and governments. Consequently, it is relatively easy to negotiate tariff reductions on a balanced, reciprocal basis and to ensure compliance with agreements. In fact, the greatest achievement of successive rounds of GATT negotiations has been a dramatic reduction of tariffs among member countries.

Although China and other nonmarket economy countries have had official tariff systems, tariffs had little practical role in regulating trade. Imports were determined by the plan: without the approval of central authorities, foreign firms had no access to their markets. Thus, negotiating reciprocal reductions of tariffs had little meaning under central planning, since lower tariffs would have insignificant effects on the level of imports.

Similarly, the GATT principle of non-discrimination was alien to central planning. The state's total monopoly of foreign trade fostered politically motivated, preferential trade agreements, rather than market-oriented trade. Although the GATT does include provisions regulating state trading, the provisions pertain primarily to state-owned firms in mainly market economies. It requires that such firms make import and export decisions on commercial, not political criteria. Under central planning, however, state-owned enterprises had little incentive for conducting foreign trade operations on a market basis.

There were many other problems in applying GATT rules to centrally planned foreign trade. The GATT, for example, discourages dumping (selling at a price below the fair value of the product) and subsidies (providing special benefits to exports), and allows members to take countermeasures against such practices. The absence of market prices in nonmarket economies, however, made it difficult to determine the existence of dumping or subsidization. Likewise, GATT codes of conduct stress transparency in establishing procedures for setting standards, customs valuation, government procurement, and other government actions that influence trade flows. The highly secretive centrally planned systems did not meet the GATT's standards of openness.

In the past, the GATT has used two kinds of arrangements to accept applications from nonmarket economy countries. Poland, in 1967, and Romania, in 1971, attained membership after making commitments to increase imports from member countries by specified amounts. Other member countries reserved the right to protect their economies with quantitative restrictions against surges of imports from the two countries that disrupted domestic markets. Another nonmarket economy, Hungary (in 1973) attained membership after making commitments to fundamental economic reforms that would transform it to a market economy. Neither approach to GATT membership was totally satisfactory. Poland and Romania had difficulty in meeting their commitments to increase imports, and Hungary's reforms, until the 1990s, were widely regarded as insufficient to become fully compatible with the GATT.[2]

Also relevant to China's application is the GATT's special treatment of many developing countries. The GATT allows exceptions to its rules, permitting developing countries to maintain high tariffs and quantitative restrictions on imports to support development objectives, or to overcome balance of payments problems. It also allows member countries to extend "differential and more favorable" tariff treatment (the generalized system of preferences) to the developing countries.[3] In short, the GATT's treatment of developing countries is an important exception to its general emphasis on market-oriented trade. The Chinese Government, in its negotiations on accession, has insisted that China is a developing country which is entitled to the same special treatment that other developing countries receive. Chinese negotiators have argued that China should be eligible for preferential tariff treatment and that it should be given an extended transition period to complete its market reforms.

---

[2] John H. Jackson, *The World Trading System: Law and Policy of International Economic Relations*, Cambridge: The MIT Press, 1989, p. 286; and Klaus Bolz and Petra Pissulla, "GATT's Role in East-West Trade," *Intereconomics*, March/April 1986, pp. 102-106.

CHINA'S ECONOMIC REFORMS

If China remained a strictly centrally planned economy, serious negotiations on its accession to the GATT would probably not be taking place. The economic reforms that began in the late 1970s, however, have substantially transformed the Chinese economy. Although significant vestiges of the old system remain, China is in transition away from central planning toward a market-oriented economy. Chinese officials characterize their system as a "socialist market economy," denoting that free market principles will coexist with predominately socialist ownership of the means of production.

The market reforms have boosted China's chances of acceding to the GATT. Serious questions about the nature and timing of further reforms, however, remain a stumbling block to agreement in the negotiations. Three aspects of the reforms--the reduced role of central planning; new forms of ownership and enterprise reform; and openness--illustrate some of the ambiguities of the concept of a socialist market economy, which continue to raise doubts about the compatibility of China's economy with the GATT system.[4]

THE DECLINE OF CENTRAL PLANNING

The essence of China's economic reforms has been the reduction of the role of central planning and increased reliance on market-determined prices to allocate resources. Before the reforms, the central government maintained strict control over the level and composition of investment, the allocation of key raw materials, and the prices and assortment of goods produced by farms and industrial enterprises. Central planners financed investments through budgetary allocations and centrally directed bank loans, allocated raw materials through the Government's material supply system, and controlled output through rigid, mandatory plans for state- or collectively owned farms and enterprises.

---

[3] John H. Jackson, *The World Trading System*, pp. 275-281.

[4] This discussion of Chinese economic reforms draws heavily on two sources: Michael W. Bell, Hoe Ee Khor, and Kalpana Kochhar, *China at the Threshold of a Market Economy*, Washington, International Monetary Fund, Occasional Paper 107, September 1993; and Nicholas R. Lardy, *China in the World Economy*, Washington, Institute for International Economics, April 1994.

The reforms have resulted in the progressive decentralization of economic decision-making. Fewer investment decisions are made by central planners, and more are made by local governments and enterprises. The allocation of inputs and decisions about what to produce are increasingly made on the basis of market prices. Price reforms have sharply reduced the number of prices that are fixed by central planners.

China's transition from central planning toward the market is far from complete, however. Some key manufacturing projects, for example, are still financed by the state. More importantly, investments that are financed through Chinese bank loans are frequently made, not on the basis of commercial considerations, but in response to local political pressures.[5] Also, while the reforms have allowed a greater role for market prices, the government continues to play a role: some prices are still fixed by the government, and others are determined by a combination of administrative and market forces.

NEW FORMS OF OWNERSHIP AND ENTERPRISE REFORM

The Chinese reforms have not emphasized wide-spread privatization, as have some other countries in transition away from central planning. Instead the government has chosen to maintain predominantly socialist ownership of factories. While some privately owned enterprises have been allowed, particularly in the service sector, the vast majority of industrial enterprises and most farm land are owned either by the state or by collectives. There have, however, been significant changes in the way enterprises are controlled and managed.

Under central planning, state-owned enterprises--those that are under the direct authority of the central government or of the provincial governments--produced most industrial output. They continue to account for a large, but steadily declining share, of industrial production: according to official Chinese statistics, their share had dropped to 65 percent in 1985 and to 48 percent in 1992.[6] Most of the state-owned enterprises operate much as they did under central planning. About two-thirds of them are either making no profits or losing money. The central government is reluctant to allow bankruptcies, however, because of fear that unemployment may lead to unrest.[7]

---

[5] Lardy, *China in the World Economy*, p. 13-14.

[6] Statistical Bureau of the People's Republic of China, *China Statistical Yearbook of 1993*, p. 367.

[7] U.S. Congress. Senate Committees on Foreign Relations and Finance and House Committees on Foreign Affairs and Ways and Means. *Country Reports on Economic Policy and Trade Practices*. Joint Committee Print, S. Prt. 103-68.

Consequently, they are supported with subsidies from the state budget and through soft loans (many of which are unlikely to be repaid) from the banks.

Recent reforms are aimed at encouraging state-owned enterprise to operate on a commercial basis. The State Council in July 1992 issued regulations to give these firms greater autonomy over their personnel, pricing, and investment decisions. The central government has also permitted experiments in new forms of corporate ownership, under which state owned-enterprises issue stock, but government entities hold majority ownership.

Much of the declining share of state-owned enterprises is now produced by urban and rural collectives, which are affiliated with local governments, villages, or neighborhoods. Although they are regarded as publicly owned, they operate largely in a market environment. They are free to produce what they want and to sell their products without interference from the central government. They are not managed by, and do not report to, the state industrial ministries.[8] In 1992, collectives accounted for 38 percent of Chinese industrial output.

Two other categories of ownership--"individually owned" and "enterprises of other economic forms"--are officially regarded in China as the private sector. Each accounts for about 7 percent of China's industrial output. Individually owned enterprises refer to those that are owned by an individual and has no more than seven employees. Enterprises of other economic forms include individually owned enterprises with more than seven employees; foreign enterprises; and joint ventures.

Land continues to be collectively owned. The reforms of the late 1970s, however, made fundamental changes in the way Chinese farms are managed. The communes which previously controlled farm land, equipment, and supplies, and had responsibility for all production decisions were dissolved, and farm land was distributed to individual households, which assumed responsibility for production decisions. Farmers remit part of their crops, in accordance with a contract negotiated with local authorities, in return for use of the land.

Despite increased reliance on market forces to determine the price of many products, the predominance of public ownership in China limits the influence of the market in determining prices for inputs--land, labor, and capital. While wages appear to be determined by market forces in rural, small-scale industries, the central government largely sets wage rates for the state-owned sector. Market forces play a relatively small role in allocating land and financial capital.[9] The absence of developed markets for inputs means that the real costs of production often are not fully reflected in the prices for final goods and services.

103d Congress, 2d session. Washington, 1994, p. 44.

[8] Bell, Khor, and Kochhar, *China at the Threshold*, p. 13.

[9] Lardy, pp. 11-14.

OPENNESS

A key to China's entry into the GATT system is the Chinese Government's ability to convince current GATT members that its economy is open to foreign trade and investment. Chinese officials frequently point to legal and institutional changes and to the growing importance of the foreign sector of the economy as evidence that their system is open. In fact, the situation is complex: China has fundamentally changed its foreign trade regime, but the central and provincial governments maintain significant levers to influence trade and investment flows.

Trade Reforms

Since the late 1970s, China's foreign trade regime has been transformed from a highly centralized, centrally planned monopoly to a system that more closely resembles the trading rules of market economies. By 1989, the 12 state-owned foreign trade corporations that formerly monopolized trade transactions were given greater autonomy, and about 4,000 local branches had become independent entities responsible to local governments. Some other enterprises were authorized to trade on their own account. The state sharply reduced mandatory planning of imports and exports.

China currently has a managed official exchange rate which is nominally linked to a trade-weighted basket of currencies. Chinese officials have indicated that their goal is to have a fully convertible currency within several years. The government took a step in that direction on January 1, 1994, when it eliminated the existing dual exchange rate system. (It unified its official rate with the market-related rate offered at foreign exchange centers.) The Government has also gradually relaxed its controls over foreign exchange, allowing domestic enterprises to retain rights to part of their foreign exchange earnings and to purchase foreign exchange subject to state approval. On April 1, 1994, it announced reforms that would provide easier access for domestic enterprises to foreign exchange.

Before the reforms, the Chinese Government was openly hostile to foreign investment. Although it continues to limit the role of foreign investment, the Chinese government allows, and sometimes encourages, foreigners to invest in selected parts of the economy. In particular, the Government has given preferential treatment (primarily tax incentives) to foreign firms that invest in special economic zones and to firms that generate new exports. The special economic zones, where most foreign investment exists, have served not only to increase foreign investment, but to experiment with market-oriented reforms.

In 1991, the Chinese Government, stimulated in part by its application to GATT and in part by bilateral negotiations with the United States, began to carry out new trade reforms. It ended direct subsidies to foreign trade corporations, reduced import duties, and adopted the harmonized system for customs classification and statistics. Under a Memorandum of Understanding signed with the United States on January 16, 1992, the Chinese Government agreed to strengthen its protection of intellectual property rights.

In another agreement with the United States, the Memorandum of Understanding on Market Access, signed on October 10, 1992, the Chinese Government committed itself to implementing a number of further reforms. It agreed to eliminate many barriers to imports. Specifically, it agreed to eliminate approximately 75 percent of all import licensing requirements, quotas, and other restrictions by the end of 1994, and 90 percent by the end of 1997. The Chinese Government also agreed to make its system more transparent by publishing trade laws and regulations and to establish a working group to revise unscientifically based standards and certification which restricted imports. In return, the U.S. Government made a commitment to reduce export controls on computers and telecommunications equipment and to "staunchly support" China's membership in the GATT.[10]

The Chinese Government has followed through on some of its commitments. It lowered tariffs on nearly 3,000 items at the end of 1993 and eliminated quotas and licenses for over 200 products in June 1994. In May 1994, the Government attempted to improve the transparency of its trade regime by publishing a comprehensive new foreign trade law.[11] The law includes provisions that restrictions on imports and exports must conform to GATT rules and that subsidies to China's foreign trade companies must be ended.

Remaining Trade Barriers

Even after the recent reforms, China maintains significant barriers to trade. For example, while the May 1994 law stipulates that direct subsidies for exports must end, indirect subsidies, such as low-cost inputs, preferential bank loans, and tax incentives, continue. The law also provides for continued protection for China's service sector and stipulates that China can restrict imports if it experiences balance of payments difficulties. China continues to have very high tariffs and import licensing requirements for some products. It also maintains many restrictions on foreign investment: it does not allow foreign investments in many areas of the economy and allows other investments only with rigid performance requirements.

Many other Chinese practices have generated frictions with the United States and other trading partners. On June 30, 1994, for example, the U.S. Trade Representative designated China as a "priority foreign country," under the

---

[10] Wayne M. Morrison, *China-U.S. Trade Issues*, CRS Issue Brief 91121, updated continually.

[11] U.S. Central Intelligence Agency, *China's Economy in 1993 and 1994: The Search for a Soft Landing*, Report submitted to the U.S. Congress, Joint Economic Committee, Subcommittee on Technology and National Security, July 22, 1994, p.10.

"Special 301" provision of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418), because of its failure to protect intellectual property rights of U.S. citizens.[12] Another example is China's foreign exchange system: the U.S. Department of Treasury has reported on several occasions that China had manipulated its exchange rate system to gain unfair competitive advantage.[13]

Moreover, China's movement away from central controls has not always meant a more open trading system. In some cases, local protectionism has replaced national protectionism. Exporters to China have complained that customs procedures (such as valuation of imports) and other trade regulations are applied inconsistently in different parts of China. Decentralization of authority has also made it difficult to enforce some laws that are aimed at liberalizing the system.

Underlying many of China's trade barriers is a long-standing policy of import substitution--prohibiting imports because similar products are produced domestically or actively promoting domestic sources to replace imports. With the trade reforms of the early 1990s, the Chinese Government stated that it had eliminated all regulations, guidance, and policies that promote import substitution. Nevertheless, the Government continues to promote industrial policies that imply import substitution. In July 1994, for example, the State Planning Commission issued a statement on industrial policy for the automotive industry, which included "import management measures" for the industry.[14] Automobile imports, according to the statement must be in keeping with the state automotive production plan and must be approved in advance by the State Council. The statement also outlined provisions for preferential loans for state-supported enterprises, performance requirements for new joint ventures, and preferential tariff treatment for enterprises meeting certain local content requirements.

Chinese officials have indicated that similar policies are being developed for other "pillar" industries, such as telecommunications and heavy industrial equipment.[15] They maintain that such programs are a part of China's industrial policy and are not related to its application to GATT. Many trade officials in other countries disagree. They consider such industrial policies to be inconsistent with GATT rules on national treatment, subsidies, domestic content, and other nontariff barriers.

---

[12] See Wayne M. Morrison, *China-U.S Trade Issues*, for further discussion.

[13] U.S. Trade Representative, *Foreign Trade Barriers*, Washington, 1994, pp. 43-57.

[14] The statement was published in *People's Daily*, July 3, 1994, and translated by the American Embassy in Beijing.

[15] *Inside U.S. Trade*, August 5, 1994, pp. 1, 13-14.

Is China Open?

Despite the remaining barriers to trade, the policy of opening has already had a pronounced effect on China's foreign economic relations. Foreign trade turnover is now estimated at between 18 and 26 percent of China's gross domestic product--probably twice the share in 1978.[16] (The comparable figure for the United States is 16 percent.) Foreign investment in China, virtually nonexistent before the reforms, now plays a rapidly growing role in China's economy. There are over 29,000 joint ventures with a contracted value of $45 billion. Still, many foreign exporters and governments claim that the Chinese market is difficult to enter. Many question whether China is truly an open economy.

Chinese officials often point to China's trade deficit as evidence that it is open. (In 1993, China recorded a trade deficit of $12.2 billion, its first since 1989. See appendix table 1.) In a market economy, however, a trade deficit is not a good indicator of how open the economy is. The deficit mainly reflects macroeconomic conditions--rapid growth and an accompanying increased demand for imports in China, and relatively slow growth, with reduced demand for China's exports, in the economies of some of its major trading partners. The nature of China's trade regime--whether it is open or closed--may affect the composition and direction of trade, but not the overall trade balance.

Perhaps the best indicator of China's openness is whether it is trading in accordance with its comparative advantage--that is, whether decisions to import or export are based on market prices that reflect relative costs of production in China and its trading partners. Openness implies that a country exports products that it produces relatively efficiently and imports products that are produced relatively efficiently abroad.

The evidence for China is mixed. A World Bank study concluded that the structure of China's exports increasingly reflects its comparative advantage.[17] As China's reforms have proceeded, its exports have become increasingly labor-intensive. Thus, the share of clothing, footwear, toys, and sporting goods, travel goods, and items that require simple assembly operations, has increased. (See appendix table 2.) In fact, China has begun to specialize so heavily in such exports, that foreign competitors have increasingly lobbied their governments for import relief against an assortment of Chinese products. At the same time, capital-intensive exports (many of which were subsidized under the old central planning system) have decreased. Thus, Chinese exports appear to be driven increasingly by market forces.

China's imports, on the other hand, show a different pattern. Government planning, administrative controls, and foreign exchange allocation continue to influence the structure of imports. The Government appears to encourage imports used in the production of exports, and restrict imports of certain nonessential goods. For example, capital goods, such as machinery and transportation equipment, account for a steadily increasing share of Chinese imports. The share of food imports has declined, and the share of imports of consumer goods has remained inconsequential. The World Bank study suggests that the pattern of China's imports is not an accurate reflection of its comparative advantage.[18]

---

[16] World Bank, *China: Foreign Trade Reform*, Washington, 1994, p. 20. The percentage depends on which estimate of China's GDP is used.

[17] World Bank, *China: Foreign Trade Reform*, pp. 150-66

ISSUES IN THE NEGOTIATIONS ON CHINA'S ACCESSION

The ambiguous nature of China's socialist market economy, in which market reforms coexist with continuing heavy government involvement in the economy, raises serious questions about its compatibility with the world trading system. Is it truly a market economy? Are exports and import-competing products fairly priced, or do they reflect government controls and subsidies? Is the Chinese economy open to foreign companies, or do the central and local governments maintain an inordinate level of protection? What kind of further reforms are planned, and when will they take place? Such questions have been the focus of negotiations, at both the bilateral and multilateral levels, on China's accession to the GATT.

U.S.-CHINESE NEGOTIATIONS

The U.S. Government has played a leading role in pressing China to reform its economy further before accession to GATT. In U.S.-Chinese bilateral talks in March 1993, for example, U.S. negotiators spelled out five conditions that China must meet to gain U.S. support for its application:[19]

- a single national trade policy common to all Provinces and regions of the country;
- full transparency of trade regulations;
- continuing gradual removal of nontariff import barriers;
- a commitment to move to a full market economy;
- until the transition to a market economy is completed, the acceptance of a safeguard system to protect GATT member countries from possible surges in Chinese exports.

---

[18] Ibid., pp. 15-19.

[19] U.S. International Trade Commission. The Year in Trade 1992: Operation of the Trade Agreements Program. 44th Report. USITC Publication 2640. July 1993, p. 85.

The first four conditions call for continuation and deepening of the market reforms and further trade liberalization measures. The fifth calls for China to accept restrictions by its trading partners when surges of exports threaten serious injury to their domestic producers.

In effect, the last condition assumes that the reforms and market opening measures will not occur immediately and that China's trading partners will need special measures to protect their domestic producers from Chinese exports. GATT article XIX already provides for safeguards (temporary import restraints to protect domestic industries that are seriously injured by fairly priced imports.) Article XIX, however, provides that a country using safeguards offer compensation to the exporter (for example, by reducing tariffs on other imports from the target countries) or risk retaliation. It also requires that safeguards be applied on a most-favored-nation basis; that is, that it be applied to all countries exporting the product. U.S. negotiators (and negotiators from other trading partners) are pressuring China to accept selective safeguards--safeguards that would be applied only to China, without compensation and not subject retaliation.

All the U.S. conditions relate to economic reforms in China. Other U.S. bilateral trade negotiations with China have frequently linked trade and political issues, such as the linkage between extension of MFN and China's human rights policies. Although some observers have suggested a similar conditioning of China's accession to GATT on it human rights policies, the negotiations have not explicitly addressed such political issues. Members of Congress have differed on this question. Some have urged a policy of linkage, while others have urged that China's accession be linked only to economic and trade reforms.[20]

U.S. trade policy toward China will continue to be linked to its human rights policies, however, whether or not China accedes to the GATT and becomes a member of the WTO. Under the Jackson-Vanik Amendment of the Trade Act of 1974 (P.L. 93-618), U.S. extension of MFN to China is conditioned on Chinese emigration policy. Although GATT and the future WTO generally require unconditional MFN treatment, they have provisions that allow non-application of the GATT and the Uruguay Round agreements to countries that are not "original members."[21] Under current U.S. law, the U.S. Government must continue the policy of conditional MFN.

---

[20] In a letter to U.S. Trade Representative Mickey Kantor, for example, the chairmen and ranking Republican members of the House Ways and Means Committee and the Subcommittee on Trade, urged that China's entry be conditioned on trade and economic reforms. The letter is reprinted in *Inside U.S. Trade*, April 15, 1994, p. 16.

[21] President of the United States. Communication to the Speaker of the U.S. House of Representatives and the President of the Senate. Attachment, pp. 27-8.

The negotiations on China's accession to GATT are related to another important bilateral political issue--U.S. policy toward Taiwan. Since 1992, a GATT working party has been considering a concurrent application from Taiwan for accession to GATT. The Chinese leadership in Beijing is concerned about the efforts of the nationalist government in Taiwan to enhance its international identity and prestige by joining multilateral organizations like the GATT.[22] The Chinese Government has insisted that China must be admitted first, and that Taiwan could then be admitted as an autonomous customs territory of China. Like the question of China's human rights policies, the issue of Taiwan is not an explicit part of U.S.-Chinese negotiations on accession. The decision on when to approve accession protocols for China and Taiwan, however, is a sensitive issue for U.S. policymakers.

NEGOTIATIONS IN THE GATT

The GATT working party on China's accession (which includes U.S. negotiators) has elaborated and added to the U.S. conditions. The chairman of the group prepared a report for negotiations in June 1994 that listed the conditions for China's accession that had been proposed by all concerned parties.[23] Like the U.S. conditions, the conditions spelled out in the GATT report relate to selective safeguards, trade liberalization, and domestic market reforms.

The report includes stipulations that China conform with general GATT principles, such as national treatment, and that it accept rules negotiated in the Uruguay Round for new areas, such as market access in the service and agriculture sectors, protection of intellectual property rights, and trade-related investment measures. It also calls on China to adhere to two of the GATT codes of conduct--the Agreement on Trade in Civil Aircraft and the Government Procurement Agreement--which many members of the WTO will not be required to sign.[24]

---

[22] For further discussion, see Robert G. Sutter, *Taiwan: Recent Developments and U.S. Policy Choices*, CRS Issue Brief IB94006, updated continually.

[23] The report is reproduced in *Inside U.S. Trade*, "Special Report: GATT Working Party on China Focuses on Members' List of Demands," July 1, 1994, pp. S2-8. GATT officials call the report a "non-paper" and emphasize that it is not a draft protocol. They characterize it as a compilation of issues raised by various member countries. A slightly revised report was discussed at a meeting of the Working Party on July 28-29, 1994; it will be the subject of further negotiations planned for late September or early October.

[24] The codes of conduct are, until the Uruguay Round is implemented, plurilateral agreements. That is, not all members of GATT are required to adhere to them. With the implementation of the Uruguay Round, only four of the codes--the agreements on Civil Aviation, Government Procurement, Bovine

A number of conditions compiled by the GATT working party relate to specific features of the Chinese economy. Like U.S. negotiators in bilateral negotiations, the GATT report addresses issues related to uniform administration of China's trade regime, transparency, and non-tariff trade barriers. Other issues in the GATT report relate to the vestiges of central planning in China: trading rights and enterprise autonomy; foreign exchange restrictions; state trading; elimination of price controls; economic reforms; and special problems in determining dumping and subsidies.

The report does not explicitly address the question of whether or not China is a developing country. It implies, however, that, on many questions, China should be treated as a developed country. It provides, for example, that China not avail itself of any transitional arrangements for implementing new GATT disciplines on intellectual property rights. It also puts strict limitations on China's use of measures to redress balance of payments problems. It includes no provision for other members to extend tariff preferences to China.

CHINA'S REACTION

Chinese negotiators have taken issue with many of the conditions proposed by the United States and other trading partners. They emphasize the extent to which China has already reformed its economy and liberalized its foreign trade regime. The reforms, they say, will continue, but will take time. Consequently, Chinese negotiators argue that China deserves a longer transition period to conform fully with GATT rules. They claim, for example, that it is impossible for China to meet immediately the conditions for national treatment, protection of intellectual property rights, or trade-related investment measures.

China's argument for longer transition periods to conform with GATT rules is based in part on its status as a developing country. Estimates for China's per capita gross domestic product--one indicator of whether a country is developed or developing--vary widely. The World Bank estimates that per capita GDP in the early 1990s, based on the official exchange rate, was $370. Estimates based on the purchasing power of the Chinese yuan give a more realistic picture: they vary from $1000 to $2500 for the early 1990s.[25] By any measure, China's contention that it is a developing country is well founded. Consequently, Chinese negotiators maintain that it must continue to protect some less developed parts of its economy, such as services and agriculture, for a extended period.

Chinese negotiators have complained that some of the proposed conditions for its accession to GATT are discriminatory. They note, for example, that the proposed requirement that China sign the plurilateral codes of conduct is

---

Meat, and Dairy Products--will remain plurilateral. Thus, China may be required to adhere to two codes that many WTO members will not adhere to.

[25] Lardy, *China in the World Economy*, pp. 14-18.

unique; no other country is required to sign the Agreements on Civil Aviation and Government Procurement. Similarly, they maintain, the proposed conditions that China carry out certain domestic reforms, such as ending price controls, go beyond GATT requirements for other countries. They also complain that the proposed application of selective safeguards to China is inconsistent with the GATT principle of nondiscrimination.

DIFFERENCES AMONG GATT MEMBER COUNTRIES

Some differences of emphasis have emerged among China's trading parties about the kind of protocol of accession that should be required for China. Most importantly, there is disagreement about whether the protocol should emphasize the need for further market reforms or the need for liberal safeguard provisions. Most GATT members agree that there is a need for both, but they attach different priorities to them. U.S. officials, for example, have proposed more rigorous conditions on market reforms; they have pressed for additional Chinese reforms now and a specific timetable for future reforms. They argue that current GATT members now have maximum leverage to pressure China to undertake further reforms, and that such reforms will reduce the number of trade disputes with China in the future. European Union officials, on the other hand, have put less emphasis on reforms and more on liberal safeguards that will facilitate restrictions on imports from China that threaten European producers. They are apparently convinced that it is important that China accede soon, but that current members must have the means to protect their domestic markets against surges of imports from China.

There are also different responses to China's demand for developing country status. Negotiators for the United States and other member countries cite China's rapidly growing exports as evidence that many Chinese producers are fully competitive and need no special treatment in GATT. Some trade officials from member countries have conceded that China may need a transition period to conform fully to some GATT rules. There are differences of opinion, however, over which conditions should be moderated and how long the transition periods should be.

IMPLICATIONS OF CHINA'S ACCESSION

China's accession to the GATT and the future WTO has important implications for the Chinese economy and its trading relations. Adherence to GATT rules would pressure China to trade more in accordance with its comparative advantage, thus increasing efficiency and welfare gains for its economy. Membership would improve access to foreign markets for Chinese exporters and make China more open to imports. Removal of foreign trade barriers would encourage production of exportable goods, allowing exporters to benefit from economies of scale and increase their profits. Removal of Chinese import barriers would improve consumer welfare and reduce costs for firms that use imported machinery and materials.

GATT membership would also encourage Chinese domestic economic reforms. Removing trade barriers allows international relative prices to impose market discipline on domestic producers. In the past, Chinese central planners isolated the domestic economy from international market forces. Trade liberalization would restore the links between domestic prices and world market prices. Domestic producers who formerly operated as state-owned monopolies would be forced to face competition from foreign producers. Foreign competition would help to dampen domestic inflation--a serious problem in China--as domestic firms were pressured to minimize costs and price their products in accordance with market conditions. It would also stimulate technological change, as producers sought to improve their products and production processes.

Trade liberalization would also bring significant adjustment costs to the Chinese economy. Relatively inefficient firms would lose sales and profits to foreign competitors, resulting in bankruptcies and unemployment. These costs could be large and painful for China, which has a large state-owned sector that is accustomed to protection from foreign competition and subsidies from the state.

The conditions under which China accedes to the GATT will largely determine the nature and size of the benefits and costs to the Chinese economy. Strict conditions for market reform and opening could increase the long-run efficiency and welfare gains from trade, but also increase the short-run adjustment costs. Chinese officials, in arguing for an extended transition period to conform to GATT rules and special concessions as a developing country, have shown great concern about the costs. They warn that reforming and opening the economy too rapidly could lead to a rapid increase in unemployment and social unrest.

The conditions of accession will also influence China's access to foreign markets. Generally, Chinese exporters stand to be major beneficiaries of China's membership in the GATT. Because of the composition of their exports, particularly textiles, apparel, and other manufactures, they currently face very high trade barriers. Under the Uruguay Round agreements, China will benefit not only from tariff reductions, but from a phase-out of quotas (under the Multi-Fiber Arrangement) for its textiles and apparel exports. Moreover, if China is admitted as a developing country and becomes eligible for the Generalized System of Preferences, it could receive tariff-free treatment for many exports to the economically developed countries.

China's access to foreign markets may also be aided by improved dispute settlement procedures and new rules for dumping, subsidies, and safeguards. The concentration of China's exports in a few product areas has made them especially vulnerable to trade remedy measures in the United States, the European Union, and other trade partners. Currently, the United States and the European Union (two of the major markets for Chinese exports)[26] have special anti-dumping and safeguard procedures that make it easier to take action against imports from China and other non-market economy countries. As a member of GATT, China could argue that its exports should be subject to the same trade remedy rules as other members.

---

[26] See Appendix Table 3.

An accession protocol that includes liberal selective safeguard measures, however, could severely limit China's access to foreign markets. Although frequent resort to safeguards, by limiting surges of imports from China, would help to lower the adjustment costs for China's trade partners, it could have two kinds of harmful effects on China. First, the use of safeguards could reduce the overall gains from trade for China. It would limit the volume of China's trade and the gains that China could attain through specialization according to its comparative advantage. Second, safeguards could distort the signals from the international market place that help Chinese producers make rational choices about which goods to produce and consume. If other governments impose trade remedies for protectionist reasons, they may thwart the market reforms by discouraging efficient production patterns in China.

Not all applications of trade remedies distort market signals, however. Some trade remedy measures may effectively counter imports of Chinese goods sold at nonmarket prices, thus reinforcing domestic reforms aimed at price liberalization. To the extent that trade remedies discourage inefficient production in China, they may be sending precisely the kinds of signals that further domestic economic reforms.

The conditions under which China accedes to the GATT are also important for current and potential exporters to China. An accession protocol which requires rigorous and immediate adherence to GATT's rules could result in greater market access with more transparent rules for U.S. and other exporters. It could also alter the composition of exports to China. To the extent that China's current trade regime discriminates against certain imports (such as consumer goods or finished manufactures), producers of those goods would benefit disproportionately. An accession protocol that provides for liberal transition periods for application of GATT rules would bring similar, but delayed changes in China's import regime.

China's application to the GATT also has important implications for the world trading system. Because China is a large and growing trading country, the outcome of the negotiations could have an immediate and significant effect on the rules for world trade. An accession agreement that provided numerous exemptions and long transition periods for China's adherence to GATT rules could undermine respect for, and observance of those rules. On the other hand, placing too many conditions on China's accession could lead to the exclusion of China, and thus, a significant part of world trade from the discipline of multilateral rules.

The conditions agreed to for China's accession could also set a precedent for other pending applications for GATT membership. GATT currently has working parties examining applications for accession from 20 other countries, including 13 which, like China are in transition away from central planning toward market economies.[27] If China is allowed many exemptions from current GATT rules, the governments of other applicant countries are likely to ask for similar treatment.

---

[27] The other 13 countries in transition for which their are GATT working parties are Albania, Armenia, Belarus, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Moldova, Mongolia, Russia, Slovenia, and Ukraine.

APPENDIX

TABLE 1. China's Foreign Trade: Exports, Imports and Balance, 1976-93

Year	U.S. $1,000,000,000		
	Export	Imports	Balance
1976	6.85	6.58	0.27
1977	7.59	7.21	0.38
1978	9.75	10.89	-1.14
1979	13.66	15.67	-2.01
1980	18.12	20.02	-1.90
1981	22.01	22.02	-0.01
1982	22.32	19.29	3.04
1983	22.23	21.39	0.84
1984	26.14	27.41	-1.27
1985	27.35	42.25	-14.90
1986	30.94	42.90	-11.96
1987	39.44	43.22	-3.78
1988	47.52	55.28	-7.76
1989	52.54	59.14	-6.60
1990	62.09	53.35	8.75
1991	71.84	63.79	8.05
1992	85.00	80.61	4.39
1993	91.80	104.00	-12.20

Source: Statistical Bureau of the People's Republic of China. *China Statistical Yearbook of 1993*, p. 573; Nicholas R. Lardy, *China in the World Economy*, Washington, Institute for International Economics, 1994, p. 30.

TABLE 2. Composition of China's Trade, 1992 (U.S. $ 1,000,000)

Commodities	Exports		Imports	
	Value	Composition (%)	Value	Composition (%)
Total Value	84,998	100.0	80,610	100.0
Live Animals, Animal Products	2,790	3.3	510	0.6
Vegetables, Fruits and Cereals	4,324	5.1	1,987	2.5
Animal and Vegetable Oil, Fats and Waxes, Refined Edible Oils and Fats	140	0.2	540	0.7
Food, Beverages, Liquor and Vinegar, Tobacco and Tobacco Substitutes	3,296	3.9	1,093	1.4
Minerals	5,618	6.6	4,781	5.9
Chemicals and Related Products	4,123	4.8	7,176	8.9
Plastics and Related Products, Rubber and Related Products	1,829	2.1	5,309	6.6
Raw Hides, Leather, Furs and Related Products, Saddle, Travelling Articles, Handbags and Similar Containers	2,913	3.4	1,394	1.7
Wood and Wooden Products, Charcoal, Cork and Related Products, Rice Straw Plaited Products, Baskets and Wickerworks	1,1174	1.4	1,420	1.8
Paper Pulp and Cellulose Pulp, Paper Waste, Paper, Paperboard and Related Products	525	0.6	2,184	2.7
Textile Materials and Products	24,630	29.0	10,138	12.6
Footwear, Headgear, Umbrellas, Sticks, Whips, Processed Feather, Artificial Flowers, Wig	5,144	6.0	506	0.6
Gypsum, Cement, Asbestos, Mica, Ceramic, Glass	1,300	1.5	457	0.6
Natural or Cultivated Pearls, Precious or Semi-Precious Stones, Jewelry of Precious Metal or Rolled Precious Metal, Artificial Jewelry, Coins	1,005	1.2	860	1.1
Base Metals and Related Products	4,551	5.4	7,844	9.7
Machinery, Electric Equipment and Accessories, Recorders, Videorecorder and Accessories	11,542	13.6	24,462	30.3
Locomotives, Vehicles, Aircrafts, Ships and Related Transportation Equipment	2,203	2.6	6,162	7.6
Optical, Photographic, Film, Measuring, Checking and Medical Instruments and Equipment, Precision Instruments and Equipment, Clocks, Musical Instruments, Related Parts and Accessories	2,329	2.7	2,991	3.7
Other	5,562	6.6	796	1.0

Source: Statistical Bureau of the People's Republic of China. *China Statistical Yearbook of 1993*, p. 576-578.

BEST COPY AVAILABLE

TABLE 3. China's Major Trading Partners in 1993
(Millions of U.S. Dollars)

Country	Exports	Imports	Total Trade
Japan	23,302.5	15,782.3	39,084.8
Hong Kong	10,501.1	22,067.5	32,568.6
United States*	10,632.8	16,976.5	27,609.3
European Union	14,429.6	11,714.5	26,144.1
Germany	6,055.9	3,970.7	10,026.6
Italy	2,738.0	1,305.8	4,043.8
United Kingdom	1,663.5	1,928.5	3,592.0
France	1,645.0	1,292.8	2,937.8
Netherlands	713.9	1,608.8	2,322.7
Belgium/Luxembourg	816.5	611.3	1,428.2
Korea	5,360.0	2,860.0	8,220.0
Singapore	2,647.0	2,244.5	4,891.5
Australia	1,945.0	1,070.4	3,015.4
Canada	1,370.3	1,197.2	2,567.5
Indonesia	1,446.0	693.4	2,139.4
Malaysia	1,084.0	704.2	1,788.2

Source: International Monetary Fund. *Direction of Trade Statistics*.

*These trade data are based on Chinese statistics that are reported to the International Monetary Fund. Official U.S. data, which include Chinese transshipments through Hong Kong, indicate that total trade turnover with China in 1993 was $40,303 million. Thus, according to U.S. statistics, the United States was China's largest trading partner in 1993.

MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA ON THE PROTECTION OF INTELLECTUAL PROPERTY

In the spirit of cooperation embodied in their bilateral Agreement on Trade Relations and consistent with the principles of the relevant international agreements, the Government of the People's Republic of China (Chinese Government) and the Government of the United States of America (U.S. Government) have reached a mutual understanding on the following provisions:

Article 1

1. The Chinese Government will provide the following levels of protection under the Patent Law of the People's Republic of China:

(a) Patentable Subject Matter

Patents shall be available for all chemical inventions, including pharmaceuticals and agricultural chemicals, whether products or processes.

(b) Rights Conferred

A patent shall confer the right to prevent others not having the patent owner's consent from making, using, or selling the subject matter of the patent. In the case of a patented process, the patent shall confer the right to prevent others not having the patent owner's consent from using that process and from using, selling, or importing the product obtained directly by that process.

(c) Term of Protection

The term of protection for a patent of invention will be 20 years from the date of filing of the patent application.

(d) Compulsory Licenses

(i) Patent rights shall be enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.

(ii) Where China's law allows for use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected:

(1) authorization of such use shall be considered on its individual merits;

(2) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by the government in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;

(3) the scope and duration of such use shall be limited to the purpose for which it was authorized;

(4) such use shall be non-exclusive;

(5) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;

(6) any such use shall be authorized predominantly for the supply of China's domestic market;

(7) authorization for such use shall be liable, subject to adequate protection of the legitimate interests of the persons so authorized, to be terminated if and when the circumstances which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;

(8) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization;

(9) the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority;

(10) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority;

(11) the conditions set forth in sub-paragraphs (2) and (6) above are not required to be applied where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;

(12) where such use is authorized to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:

(A) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;

(B) the owner of the first patent shall be entitled to a cross-license on reasonable terms to use the invention claimed in the second patent; and

(C) the use authorized in respect of the first patent shall be non-assignable except with the assignment of the second patent.

2. The Chinese Government will submit a bill to provide the levels of protection specified in subparagraph 1 of this Article to its legislative body and will exert its best efforts to have enacted and to implement the amended patent law by January 1, 1993.

3. Both Governments reaffirm their commitments to each other under the Paris Convention for the Protection of Industrial Property (Stockholm 1967) and their continued commitment to observe the principle of national treatment with respect to providing patent protection for the natural and legal persons of the other Party.

4. If the U.S. Government becomes a party to an international convention that requires the United States to provide a patent term of at least 20 years from the date of filing of the patent application, the United States will amend its laws to satisfy this obligation.

Article 2

Both Governments reaffirm that the principle of territoriality and independence of patents with regard to protection of patents as provided in the Paris Convention for the Protection of Industrial Property should be respected.

The Chinese Government agrees to provide administrative protection to U.S. pharmaceutical and agricultural chemical product inventions which:

(i) were not subject to protection by exclusive rights prior to the amendment of current Chinese laws;

(ii) are subject to an exclusive right to prohibit others from making, using or selling it in the United States which ~~was~~ were granted after January 1, 1986 and before January 1, 1993;

[illegible]

(iii) have not been marketed in China.

The owner of the exclusive right in the United States regarding such a product invention that meets the above requirements shall provide the competent Chinese authorities with an application for administrative protection including the following documents:

(1) a copy of the certificate issued by the competent authorities of the United States granting such exclusive right;

(2) a copy of the document issued by the competent authorities of the United States for the approval for manufacturing or sale of such product; and

(3) a copy of a contract for the manufacture and/or sale entered into between the owner of the exclusive right and a Chinese legal person (including foreign capital enterprises, joint venture enterprises, or cooperative enterprises) with respect to the manufacture and/or sale of the product in China.

The competent Chinese authorities will, in accordance with published Chinese laws and regulations relating to obtaining manufacturing or marketing approval, examine such application. No special rules or additional requirements for approval will be imposed. After examination and approval, which shall occur promptly, a certificate for administrative protection, which will provide the right to manufacture or sell the subject product, will be issued to the person seeking such protection. The competent Chinese authorities will prohibit persons who have not obtained a certificate for administrative protection from manufacturing or selling the subject product during the term of administrative protection. The term of administrative protection begins from the date on which the certificate for administrative protection of the product is obtained and remains in force for seven years and six months. The above administrative protection will become available on January 1, 1993.

Article 3

1. The Chinese Government will accede to the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) (Paris 1971). The Chinese Government will submit a bill authorizing accession to the Berne Convention to its legislative body by April 1, 1992 and will use its best efforts to have the bill enacted by June 30, 1992. Upon enactment of the authorizing bill, the Chinese Government's instrument of accession to the Berne Convention will be submitted to the World Intellectual Property Organization with accession to be effective by October 15, 1992.

2. The Chinese Government will accede to the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms (Geneva Convention) and submit a bill to its legislative body authorizing accession by June 30, 1992. The Chinese Government will use its best efforts to have the bill enacted by February 1, 1993. The Chinese Government will deposit its instrument of ratification and the Convention will come into effect by June 1, 1993.

3. Upon China's accession to the Berne Convention and the Geneva Convention, these Conventions will be international treaties within the meaning of Article 142 of the General Principles of the Civil Code of the People's Republic of China. In accordance with the provisions of that Article, where there is an inconsistency between the provisions of the Berne Convention and the Geneva Convention on the one hand, and Chinese domestic law and regulations on the other hand, the international Conventions will prevail subject to the provisions to which China has declared a reservation, which is permitted by those Conventions.

4. In so far as China's copyright law and its implementing regulations are inconsistent with the Berne Convention, the Geneva Convention or this Memorandum of Understanding (MOU), the Chinese Government will issue new regulations to comply with these Conventions and the MOU by October 1, 1992. These new regulations will also clarify the existing regulations and in particular will explain that the exclusive right of distribution that applies to all works and sound recordings includes making copies available by rental and that this exclusive right survives the first sale of copies. Regulations implementing the Conventions and this MOU will prevail over regulations for

domestic works where there is an inconsistency between the new regulations and existing regulations.

In addition to applying to works created by nationals of Berne Union members, these new regulations will apply to all works created in the context of a contractual relationship, joint venture, or commission from foreign capital enterprises, foreign joint venture enterprises, or cooperative enterprises in which such nationals, individually or jointly with others, are intended to be owners of copyright in the resulting works.

The Chinese Government will submit a bill to amend its copyright law to its legislative body and use its best efforts to have enacted and to implement this legislation within a reasonable period of time.

5. Both Governments will indicate the status of the Berne Convention and the Geneva Convention in their respective laws and notify judicial and administrative bodies responsible for the enforcement of the copyright law and regulations of the provisions of the Conventions within 30 days after signature of this MOU or 30 days after accession to each Convention, which ever is later.

Both Governments will publish and provide to each other copies of any guidance provided to administrative or judicial bodies regarding the administration or interpretation of any laws and regulations related to the implementation of the Conventions or this MOU no later than 30 days after such guidance is issued.

6. No later than the effective date of China's accession to the Berne Convention, the Chinese Government agrees to recognize and protect computer programs as literary works under the Berne Convention, and consistent with the protection provided under that Convention shall impose no formalities on the protection of computer programs and provide a term of 50 years.

7. After China's accession to the Berne Convention, all works originating in a member of the Berne Union that are not in the public domain in their country of origin will be protected in China.

> (i) With regard to any uses of an original or a copy of a U.S. work on a commercial scale undertaken before establishment of bilateral copyright relations between China and the United States, there will be no liability.
>
> (ii) With regard to such uses undertaken after establishment of bilateral copyright relations, the provisions of the law and regulations will fully apply. With regards to a natural or legal person who owned and

used a particular copy of a work for a particular purpose prior to establishment of bilateral copyright relations between China and the United States, that person may continue to make such use of that copy of the work without liability, provided that such copy is neither reproduced nor used in any manner that unreasonably prejudices the legitimate interests of th copyright owner of that work.

8. The principles of paragraph 7 above, including the limitations on liability, shall apply to sound recordings.

9. The Chinese Government will recognize this MOU as an agreement under Article 2 of the Copyright Law of the People's Republic of China which shall provide a basis for protection of works, including computer programs, and sound recordings of U.S. nationals published outside of China until such time as China accedes to the Berne Convention and the Geneva Convention. Such protection shall become effective 60 days after signature of this MOU.

Based on the commitments set forth in this MOU, the U.S. Government will take the necessary steps to secure to Chinese nationals and their works eligibility for protection under the copyright law of the United States which shall become effective no later than 60 days after signature of this MOU.

Article 4

1. For the purpose of ensuring effective protection against unfair competition as provided for in Article 10bis of the Paris Convention for the Protection of Industrial Property, the Chinese Government will prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the trade secret owner in a manner contrary to honest commercial practices including the acquisition, use or disclosure of trade secrets by third parties who knew, or had reasonable grounds to know, that such practices were involved in their acquisition of such information.

2. The term of protection for trade secrets shall continue so long as the conditions for protection are met.

3. The competent authorities of the Chinese Government will submit the bill necessary to provide the levels of protection specified in this Article to its legislative body by July 1, 1993 and will exert its best efforts to enact and implement this bill before January 1, 1994.

Article 5

Both Governments will provide effective procedures and remedies to prevent or stop, internally and at their borders, infringement of intellectual property rights and to deter further infringement. In applying these procedures and remedies, both Governments will provide safeguards against abuse and shall avoid creating obstacles to legitimate trade.

Article 6

Both Governments agree, at the request of either Party, to consult promptly on matters relating to the protection and enforcement of intellectual property rights, in particular with respect to the obligations of this MOU. Both Governments agree that the first consultations pursuant to this MOU will include discussions on the new implementing regulations for the Berne Convention and this MOU and that these discussions will be taken into consideration in the drafting of the regulations.

Article 7

In recognition of the progress in improving the protection of intellectual property rights that the Chinese Government has made and of the further progress that will result from the steps that the Chinese Government has agreed to take, and in the expectation that these commitments will be fully implemented, the U.S. Government will terminate the investigation initiated pursuant to the "special 301" provisions of U.S. trade law and China's designation as a priority foreign country will be revoked effective on the date of signature of this MOU.

Signed in Washington, D.C., this seventeenth day of January, one thousand nine hundred and ninety-two, in two copies in the Chinese and English languages, both texts being equally authentic.

For the Government of The People's Republic of China	For the Government of The United States of America
	Carla A Hills

95-463 E
April 5, 1995

CRS Report for Congress

The China-U.S. Trade Agreement on Intellectual Property Rights: Implications for China-U.S. Trade Relations

Wayne M. Morrison
Analyst in International Trade and Finance
Economics Division

SUMMARY

The United States has pressed China over the past several years to improve its enforcement of U.S. intellectual property rights (IPR) in China and to provide greater market access to intellectual property-related products, such as computer software, CDs, and audio-visual products. Trade tensions over these issues nearly led the United States to impose trade sanctions against China in 1992 and 1995. In March 1995, the United States and China signed a new and detailed IPR trade agreement, which pledges China to substantially reform its IPR enforcement regime and improve market access. This report examines the U.S.-Chinese IPR dispute and analyzes the implications of the new IPR agreement on future U.S.-Chinese trade relations.[1]

WHAT ARE INTELLECTUAL PROPERTY RIGHTS?

Intellectual property rights refer to legal forms of protection of various intangible assets which result from research, innovation, creativity, and commercial reputation. Protected intellectual property rights mean that various intangible property cannot be copied, used, changed, or sold without the authorization of its owner. Legal methods of protecting intellectual property include patents, copyrights, and trademarks.[2]

---

[1] This report updates and revises the CRS Report entitled: *The China-U.S. Trade Dispute on Intellectual Property Rights*, by Wayne M. Morrison, February 21, 1995 (Report no. 95-294E).

[2] A *patent* is a governmental grant of a property right to the inventor of a product or process (which is new and has industrial application) that gives the patent holder exclusive right to the invention over a limited period of time. A *trademark* is any word, symbol, design, or device used to identify a product or service. A *copyright* refers to literary and artistic works (such as books, computer software, motion pictures, and sound recordings).

Financial losses for U.S. firms resulting from foreign violations of U.S. IPR are considered to be significant by U.S. industry officials. For example, the International Intellectual Property Alliance (IIPA), an association of eight U.S. copyright-based industries, estimates that international piracy of copyrighted products by 42 countries plus the Commonwealth of Independent States (CIS) cost U.S. firms $8.6 billion in lost trade during 1994.[3]

PROTECTION OF U.S. IPR: SPECIAL 301

Section 182 of the 1974 Trade Act (as amended), commonly referred to as *Special 301*, is one of the primary U.S. trade statutes used to protect U.S. IPR in foreign markets.[4] The provision directs the United States Trade Representative (USTR) to identify countries that deny adequate protection of U.S. IPR, and to initiate investigations against "priority foreign countries," whose IPR practices are considered to be the most serious or harmful to U.S. persons who rely on intellectual property protection.

Once a country is identified as a priority foreign country, the USTR begins an investigation and seeks negotiations with that country. If an agreement is not reached within six months (extendable to nine months), the USTR must determine if the foreign practice violated U.S. rights under a trade agreement or was "unreasonable" or "discriminatory." If an affirmative determination is made, the USTR may decide to issue trade sanctions, usually in the form of 100 percent import tariffs on selected products.

THE CHINA-U.S. IPR DISPUTE

The 1979 U.S.-China Trade Agreement that governs trade relations between the two countries specifies that both countries will afford each equal national treatment in the protection of patents, copyrights, and trademarks. In 1985, U.S. officials expressed concern over IPR protection in China during talks held under the U.S.-Chinese Joint Commission on Commerce and Trade (JCCT), and similar concerns were raised in market access negotiations begun in 1987.

In April 1991, the USTR designated China as a priority foreign country under Special 301 and launched an investigation in May 1991 of four specific deficiencies in China's IPR practices: (1) deficiencies in the patent law, in particular, the failure to provide product patent protection for chemicals, pharmaceuticals, and agrichemicals; (2) lack of copyright protection for U.S. works not first published in China; (3) deficient levels of protection under the copyright law and regulations; and (4) inadequate protection of trade secrets.

On November 26, 1991, the USTR determined that insufficient progress had been made in resolving Chinese intellectual property rights violations. The

---

[3] *International Intellectual Property Alliance*, Press Release, February 13, 1995, p. 6-7.

[4] This provision was added by Section 1303 of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418).

USTR decided to extend the investigation, but ordered to be printed in the Federal Register a draft list of products imported from China that would be subject to possible U.S. trade sanctions, if an agreement were not reached by January 16, 1992. China in turn warned that such action would prompt retaliation against U.S. products. However, last-minute negotiations yielded a Memorandum of Understanding (MOU) on January 16, 1992, and as a result, the USTR decided to terminate the investigation. Under the agreement, China pledged to strengthen its patent, copyright, and trade secret laws and to improve protection of certain U.S. intellectual property. Subsequently, China enacted several laws and various regulations to improve IPR protection.

RECENT DEVELOPMENTS

On April 30, 1994, the USTR issued its annual Special 301 review. The USTR announced that China had made significant progress in implementing the 1992 IPR agreement by enacting new IPR laws, but stated that enforcement of such laws was weak. The USTR warned that China would be designated as a priority foreign country by June 1994, unless it improved its IPR protection regime. On June 30, 1994, the USTR designated China as a priority foreign country under Special 301, initiated an investigation, and subsequently began new talks with Chinese officials.

On February 4, 1995, the USTR announced that insufficient progress had been made in talks with Chinese officials and issued a list of Chinese products, with an estimated value of $1.08 billion, which would have been subject to 100 percent import tariffs effective February 26, 1995. China in turn threatened counter sanctions against U.S. firms. However, an IPR agreement was reached on February 26, 1995 and officially signed on March 11, 1995.

ISSUES INVOLVED IN THE RECENT IPR DISPUTE

The two main points of contention between the United States and China over IPR involved China's enforcement regime as well as market access to intellectual property-related U.S. products in China.

IPR Enforcement

USTR officials argued that, while China has fulfilled most of its obligations under the 1992 IPR agreement by enacting new IPR laws, it had failed to adequately enforce those laws.

According to the USTR, piracy of U.S. copyrighted products in China has escalated in recent years and has "reached crises proportions." The USTR estimated that 90 to 100 percent of computer software, motion pictures, videos, sound recordings, and books and periodicals sold in China are pirated.[5] The

---

[5] *Testimony of the Honorable Charlene Barshefsky, Deputy USTR*, before the House Subcommittee on Asia and the Pacific and on International Economic Policy and Trade, of the House Committee on International Relations, February 2, 1995, p. 6

IIPA estimated the 1994 trade losses for U.S. firms resulting from China's copyright piracy alone at $866 million.[6]

Of particular concern to U.S. trade officials was that Chinese firms have been producing pirated compact disks, laser discs, and CD-ROMs on a large scale and have begun exporting them around the world. The USTR identified 29 factories in China which are allegedly producing pirated products and demanded the Chinese government take direct action against them. The USTR also argued that China had failed to establish an adequate enforcement regime to investigate and take action against violators of U.S. IPR. To date, only a limited number of individuals or firms in China had been prosecuted for IPR violations, and foreign firms had been largely unsuccessful in recovering financial damages in Chinese courts resulting from IPR violations by Chinese firms.[7]

Market Access

The USTR contended that Chinese trade barriers to intellectual property-related products (especially audiovisual products, sound recordings, and published materials) were a major cause of widespread IPR violations in China. For example, the Chinese government limited imports of foreign "quality films" to 10 per year. As a result, most foreign films could not be legally imported and ended up being shown in China on pirated videos. Other U.S. market access concerns involved China's use of hidden internal quotas, lack of transparency in its trade laws, government monopoly control over the importation and distribution of products embodying intellectual property, and restrictions on foreign investment.[8]

THE MARCH 1995 U.S.-CHINA IPR AGREEMENT

The new IPR agreement pledges China to substantially beef up its IPR enforcement regime and to remove various import and investment barriers. Specifically, China agreed to:

- **Take immediate steps to stem IPR piracy in China over the course of the next three months** by taking action against large-scale producers and distributors of pirated materials, and prohibiting the export of pirated products such as CDs, LDs, and CD-ROMs.

---

[6] This includes $351 million for computer programs, $345 million for records and music, $120 million for books, and $50 million for motion pictures.

[7] Other complaints on China's enforcement regime included internally inconsistent laws; a lack of transparency in the enforcement structure; a lack of consistent application of the laws throughout various levels of government; a lack of funding, training and education of IPR enforcement officials; the absence of clear and effective criminal penalties; possible conflicts of interest; the use of pirated software by Chinese government agencies; and absence of an effective border control mechanism to stop the export of pirated products.

[8] Notice by the Office of the United States Trade Representative, *Federal Register*, Vol 59, No. 132, July 12, 1994, p. 35558-35559.

Chinese officials have pledged that if such firms are found to be in violation of IPR laws, they will be shut down, their business licenses revoked, and their pirated-making machinery destroyed.

- **Establish mechanisms to ensure long-term enforcement of IPR laws**, such as banning the use of pirated materials by the Chinese government, establishing a coordinated IPR enforcement policy among each level of government, enhancing IPR enforcement agencies, creating an effective customs enforcement system, establishing a title verification system in China to ensure that U.S. audio visual works are protected against unauthorized use, reforming China's judicial system to ensure that U.S. firms can obtain access to effective judicial relief, establishing a system of maintaining statistics concerning China's enforcement efforts and meeting with U.S. officials on a regular basis to discuss those efforts, improving transparency in Chinese laws concerning IPR, and strictly enforcing IPR laws.

- **Provide greater market access to U.S. products** by removing import quotas on U.S. audio visual products, allowing U.S. record companies to market their entire works in China (subject to Chinese censorship concerns), and allowing U.S. intellectual property-related industries to enter into joint production arrangements with Chinese firms in certain Chinese cities.

U.S. and Chinese officials will meet on a regular basis to discuss concerns relating to IPR enforcement and market access, and China will release statistics on its efforts to combat piracy. In addition, the U.S. Government and IPR trade associations will provide extensive technical assistance to Chinese officials to help establish an effective enforcement regime. For example, the U.S. Customs Service, working with a $500,000 grant from the Asian Development Bank, will send officials to China to train and advise Chinese officials on enforcing IPR laws, developing new regulations, and taking effective action against IPR piracy.

RAMIFICATIONS FOR U.S.-CHINA TRADE RELATIONS

The March 1995 IPR agreement with China will likely have a significant effect on U.S.-Chinese trade relations for several reasons. First, it represents a significant commitment by the Chinese to take widespread and effective action against IPR piracy in China, and provide greater market access for U.S. intellectual property-related products and U.S. investment in China. The IPR agreement is one of the most detailed agreements ever reached under a Special 301 investigation; it establishes a wide range of specific actions and timetables which the Chinese have pledged to implement. In addition, the IPR agreement subsequently led China on March 12, 1995 to pledge to resume its implementation of an October 1992 market access agreement, extend talks with U.S. officials on providing greater market access to U.S. agricultural products, and to open new talks on market access to telecommunications services and insurance.[9] Hence, the IPR agreement appears to have ostensively resolved the IPR dispute, helped to renew China's implementation of market access reforms, and provided impetus to new talks on additional reforms to other sectors of China's trade regime. Altogether, such agreements in the long-run could lead to significant trade opportunities for U.S. firms.

For China, the IPR agreement has reduced trade tensions with its largest export market. Secondly, by affording greater IPR protection and market access, China hopes to attract foreign investment needed to develop its own intellectual property-based industries, such as computer software. Finally, the agreement led the United States and China to agree to resume talks on China's entry into the WTO.[10] Following the signing of the U.S.-Chinese IPR agreement, and subsequent Chinese commitments on market access, the United States reiterated its support of China's accession to the WTO as a founding member, and stated it would approach such talks on a *"flexible, pragmatic, and realistic basis, and to address realistically the issue of China's developing country status on the basis of the Uruguay Round Agreement."*[11] This indicates that the United States may support treating China as a developing country (giving it longer period to implement economic reforms) for certain sectors of its economy as part of U.S. policy on conditions for China's entry the WTO.

While the U.S.-China IPR agreement appears to have improved trade relations between the two nations, it is likely that conflict will arise in the future over such issues as the pace and scope of China's efforts to reform its IPR enforcement and market access regimes. For example, China has often had difficulty in the past getting provincial and local governments to comply with directives from the central government. Hence, some provincial and local governments may continue to be involved in supporting facilities that produce pirated materials or may laxly enforce IPR laws and regulations, unless strong pressure is applied by the central government. In addition, while the IPR agreement allows U.S. audio-visual firms to enter into joint production agreements in China, it does so in only selective cities. Finally, the agreement does not address all trade barriers to intellectual property products, such as high import tariffs and restrictions on foreign distribution of products in China. It is likely that these issues will be addressed in China's WTO accession talks. If not resolved, such issues could delay China's entry into the WTO, and could lead to a deterioration in U.S.-Chinese trade relations.

---

[9] In 1991, the USTR initiated a Section 301 investigation of four major Chinese trade barriers, including import prohibitions and quotas, restrictive import license requirements, restrictive import standards, and lack of transparency in Chinese trade laws. On October 10, 1992, the United States and China reached an agreement. China agreed to reduce several major trade barriers over the next five years. China suspended its implementation of the trade agreement in January 1995, after it was unable to obtain membership into the WTO by the end of 1994.

[10] Effective protection of IPR has been major condition for U.S. support of China's accession to the WTO.

[11] USTR background paper listing eight points of agreement on trade issues between the United States and China that were announced on March 12, 1995.

United States General Accounting Office

GAO

Report to the Honorable
Hank Brown, U.S. Senate

January 1995

U.S.-China Trade

Implementation of Agreements on Market Access and Intellectual Property

GAO/GGD-95-61

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-259747

January 25, 1996

The Honorable Hank Brown
United States Senate

Dear Senator Brown:

In recent years, market access barriers and inadequate protection of intellectual property rights have discouraged U.S. business activity in the rapidly growing economy of the People's Republic of China (PRC). To help address these barriers, in 1992 the United States and China signed two Memorandums of Understanding (MOUs) in which each country made certain commitments relating to improved market access and intellectual property rights protection. As you requested, we have examined China's implementation of the two MOUs. Specifically, this report focuses on (1) China's compliance with the provisions of the market access MOU and related progress needed for China to meet the eligibility requirements to join the General Agreement on Tariffs and Trade (GATT)[1] and (2) China's implementation of the MOU on the protection of intellectual property rights.[2] At your request, we are also providing information on the legal procedures involved in addressing U.S. concerns about foreign market access and intellectual property rights protection under Section 301 of the 1974 U.S. Trade Act, as amended.[3] (Apps. I and II provide more extensive details on the market access and intellectual property rights MOUs; app. III gives further information about U.S. trade law.)

Results in Brief

On the basis of our discussions with U.S. government officials, Chinese government officials, and U.S. company representatives, China appears to have taken steps to comply with most of the provisions of the MOUs on market access and the protection of intellectual property rights. However,

---

[1] GATT is an international organization created in 1947 pursuant to the GATT agreement that now has more than 100 nations as signatories. GATT is devoted to the promotion of freer trade through multilateral trade negotiations and was founded on the belief that more liberalized trade would help the economies of all nations grow. The Final Act resulting from the Uruguay Round of GATT negotiations was signed on April 15, 1994, and as of December 31, 1994, most of the participating countries had ratified it. The Final Act created a new World Trade Organization (WTO) as a successor to GATT, bringing all member countries under more of the multilateral trade disciplines. Throughout this report, the Uruguay Round Final Act will be referred to as "GATT 1994."

[2] An intellectual property right is the ownership of the right to possess or otherwise use or dispose of products created by human ingenuity. Patents, copyrights, and trademarks are examples of intellectual property rights.

[3] Under Section 301 of the U.S. Trade Act of 1974, as amended, 19 U.S.C. 2411, the President is authorized to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international agreement or is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce.

U.S. companies continue to experience problems in both areas. While ongoing efforts may produce positive results in the short term, U.S. government officials said that the full resolution of these problems will likely result only from gradual and long-term economic change in China.

- The United States Trade Representative (USTR) determined in January 1994 that China was substantially in compliance with the market access MOU. The U.S. government recognizes that the Chinese have made progress in the areas of transparency[4] and reduction of nontariff barriers. However, USTR and the U.S. Department of Agriculture (USDA) reported that China's compliance was lagging in terms of ensuring that Chinese sanitary and phytosanitary standards and testing requirements[5] are not used as import barriers. This finding contrasts with the position of Chinese officials we met with in March 1994, who told us that the government of China had faithfully implemented its MOU commitments. (See app. I for further information on China's compliance with the market access MOU.)
- The most frequent concern reported by the 38 U.S. companies who responded to our structured interview questions (see app. V.) on market access issues was transparency, followed by tariffs and nontariff barriers.[6] Fewer companies reported concerns or problems related to Chinese policies on import substitution[7] or product standards.[8]
- Since 1992, the U.S. and Chinese governments have met in both bilateral and multilateral contexts to discuss the conditions for China's accession to GATT or its anticipated successor, WTO. Before establishing a protocol of accession for China that is acceptable to all contracting parties, GATT/WTO members and Chinese negotiators must resolve a number of critical issues, such as increasing the transparency of China's trade laws and regulations, setting a timetable for China's tariff reductions, and improving Chinese enforcement of intellectual property rights protection.
- According to USTR, China has amended and issued intellectual property laws and regulations, fulfilling a number of its major obligations under the MOU on the protection of intellectual property. The Chinese government

---

[4] Transparency refers to the extent to which laws, regulations, agreements, and practices affecting international trade are open, clear, measurable, and verifiable.

[5] Sanitary and phytosanitary regulations are measures taken to protect human, animal, or plant life or health.

[6] We conducted structured interviews of 41 companies. However, only 38 companies responded to the specific questions relating to the provisions of the U.S.-China market access MOU.

[7] China's import substitution practices have typically involved denying approval for certain imports if an equivalent item is produced domestically, or conditioning import approvals on the transfer of foreign technologies into local manufacturing ventures.

[8] Only 1 of the 38 companies that responded to our questions was an exporter of agricultural products.

EST COPY AVAILABLE

has amended its patent law, issued copyright regulations, and acceded to the Berne Copyright Convention and the Geneva Phonograms Convention.[9] However, according to officials at USTR and the Departments of Commerce and State, and some U.S. industry groups, China has not made significant progress in complying with the MOU's enforcement provision. Because of China's failure to enforce its intellectual property rights (IPR) laws and regulations, in June 1994 USTR designated China a "priority foreign country" under U.S. trade law, and immediately initiated a Special 301 investigation.[10] On December 31, 1994, USTR published a proposed list of Chinese products that could be subject to 100-percent tariffs if China does not address U.S. concerns about IPR enforcement.

Background

The dramatic growth and reform of the Chinese economy has created increased potential for U.S. companies interested in exporting to or investing in China. China's economy, measured by real gross domestic product (GDP), grew at a remarkable rate of almost 13 percent in 1992 and again in 1993. By comparison, real GDP growth averaged less than 2 percent annually for industrialized countries and about 6 percent for developing countries in 1992. Based on estimates by the International Monetary Fund (IMF), China is now the world's third largest economy.[11]

Despite the expanding needs and market potential of China's economy, Chinese market access barriers and inadequate protection of intellectual property rights have restricted U.S. business activity in many economic sectors, making it difficult for U.S. firms to export to China and contributing to the growing U.S. trade deficit with China. Between 1980 and 1993, the U.S. trade balance with China moved from a surplus of $4.5 billion (in 1993 constant dollars) to a deficit of $22.8 billion.

---

[9] The full titles of these conventions are the Berne Convention for the Protection of Literary and Artistic Works and the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms.

[10] Under "Special 301" of the 1988 Omnibus Trade and Competitiveness Act (P.L. 100-418, 1988, 19 U.S.C. 2242), USTR performs an annual review to identify countries that do not provide adequate or effective protection for U.S. intellectual property rights. If a country is designated a "priority foreign country," USTR must decide within 30 days whether to initiate a Special 301 investigation into the country's IPR practices. Appendix III describes Section 301 and Special 301 laws and procedures more fully.

[11] The IMF's method for measuring China's gross domestic product is contained in an annex to the IMF's 1993 World Economic Outlook. Previous studies have compared each country's economic output by valuing its goods and services in a single currency, such as dollars, using market exchange rates. The method used in the IMF publication, known as "purchasing power parity," incorporates a valuation of nontraded output, such as housing and domestic transport.

BEST COPY AVAILABLE

Market Access

In October 1991, USTR self-initiated an investigation into Chinese market barriers under Section 301 of the U.S. Trade Act of 1974. These barriers included: failure to publish trade-related laws, regulations, judicial decisions, and administrative rulings; nontariff barriers such as import licensing requirements and quantitative restrictions; and restrictive product standards, testing, and certification requirements. After a year of negotiations, the United States and China resolved the Section 301 investigation by signing a bilateral MOU that commits China to eliminate certain market access barriers progressively over a 5-year period. The United States also made commitments to support China's achievement of contracting party status in GATT and to liberalize certain export controls.[18]

Intellectual Property Rights

In recent years, the need to strengthen protection for U.S. intellectual property rights worldwide gained greater prominence as an important international trade issue for the United States. The absence of strong intellectual property rights protection in foreign markets carries serious economic costs for U.S. industries. These costs include lost sales in third-country markets, diminished incentives and capital to fund new research and development, and distortions in trade flows. In the early 1980s, U.S businesses focused attention on the extent to which foreign infringement of U.S. intellectual property rights was weakening the competitiveness of their industries, which are recognized as world leaders in the development and export of intellectual property.[19]

In April 1991, USTR initiated a Special 301 investigation into China's intellectual property rights practices after it determined that China did not provide adequate or effective protection of U.S. intellectual property in China. The two countries resolved the investigation on January 17, 1992, when the United States and China signed an MOU that committed China to provide stronger protection for intellectual property rights.

Scope and Methodology

To review China's implementation of the provisions of the market access and intellectual property rights MOUs, we obtained information through interviews with U.S. government agencies, Chinese government ministries, and U.S. companies and business associations. Since USTR plays the lead role in negotiating and monitoring the MOUs, USTR was our primary source of information from the U.S. government. We supplemented USTR's perspective with that of other agencies involved in U.S.-China trade activities, such as the Departments of Agriculture, Commerce, and State and the U.S. Customs Service. We obtained the Chinese government's perspective on implementation of the MOUs from Chinese government officials in Beijing during a March 1994 visit.

---

[18] In accordance with Section 306 of the 1974 Trade Act, USTR monitors the implementation of any measure or agreement that results from a Section 301 investigation. If a foreign government is not satisfactorily implementing an action or agreement, USTR may determine what further action should be taken.

[19] See Intellectual Property at a Crossroads: Global Piracy and International Competitiveness, Congressional Economic Leadership Institute (Washington, D.C.: 1989).

To obtain U.S. business views on China's implementation of the MOUs, we conducted structured interviews with representatives of 41 U.S. companies doing business in China. This enabled us to draw some general conclusions about these companies' perceptions of China's progress in eliminating market access barriers and strengthening protection for intellectual property protection. In addition, our structured interviews provided us with specific examples of how China's import regime and system for protecting intellectual property rights affect U.S. business activities. However, it should be noted that the comments of our 41 respondents are not necessarily representative of all U.S. companies doing business in China.

We performed our review from October 1993 to November 1994 in accordance with generally accepted government auditing standards. See appendix VI for more details on our objectives, scope, and methodology.

China Has Taken Steps to Implement Most Provisions of the Market Access Agreement, but Other Action Has Been Slow

USTR has determined that although China has not technically implemented all of the provisions of the MOU on market access, it has taken steps and made oral commitments that bring it substantially into compliance with the agreement. For example, in the area of transparency, China has begun to issue trade regulations and policies in a central document published monthly by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Regarding nontariff barriers, China has liberalized some import quotas, licensing requirements, and controls according to the schedule set out in the agreement.

According to U.S. government officials, progress in implementing the agricultural standards provisions of the MOU has been slow. China continues to restrict imports of U.S. wheat and various fruits based on health and phytosanitary (animal and plant health) concerns. The U.S. government claims that Chinese phytosanitary standards are not scientifically justified and constitute an unfair trade barrier.

The U.S. government also made commitments in the market access MOU. USTR and Commerce Department officials said that the U.S. government has fully met its MOU commitments to (1) pursue the liberalization of export restrictions on products destined for China and (2) support China's efforts to join GATT/WTO.

Lack of transparency, high tariffs, and nontariff import barriers were the concerns most frequently mentioned by the U.S companies we interviewed about market access in China. A number of U.S. companies reported that while the government of China has taken steps to improve the transparency of its import regime, Chinese trade and investment laws are often unclear, inconsistent, or administered in an arbitrary manner. Some U.S. companies regarded Chinese tariff rates as prohibitively high for some products and complained that tariffs are not always administered uniformly from port to port. With respect to nontariff barriers, many of the companies we interviewed expressed particular concern about the import-licensing process, which they perceived as time-consuming and arbitrary.

U.S. government and business officials told us that several factors hinder China's full implementation of its commitments under the market access MOU. Declining central government control over provincial and local governments may limit implementation of the provisions of the agreement, according to these officials. In addition, the Chinese government's vested interests in state-owned enterprises can lead to arbitrary implementation of trade laws and regulations, putting U.S. companies at a disadvantage in some cases. For example, according to USTR, an industrial ministry overseeing a state-owned enterprise may apply trade rules in a way that benefits Chinese suppliers allied with that industry, rather than U.S. or other foreign companies. Further, China still lacks a convertible currency (one that is traded on international exchanges), still regulates prices, and still maintains state ownership in industry—factors that tend to work against the liberalization of China's import regime, according to a Commerce Department official.

The U.S. government is attempting to resolve the remaining concerns about Chinese market access barriers through ongoing trade promotion activities, bilateral negotiations, and through its participation in international negotiations on China's application to join GATT/WTO. In doing so, the U.S. government has the opportunity to encourage China to adopt policies that are compatible with free market economies and internationally accepted trading practices. The United States, China, and other contracting parties must resolve a number of issues in order to agree upon a protocol for China's accession to GATT/WTO.

China Has Strengthened Intellectual Property Laws and Regulations, but Its Enforcement Structure Remains Weak

Overall, USTR has determined that China has met its obligations in implementing major provisions of the 1992 MOU, that is, adopting new and revising some existing Chinese IPR laws and regulations and joining international treaties. The Chinese government has amended its patent law, providing patent protection for pharmaceutical and agricultural chemical products and granting administrative protection for approved pharmaceutical and agrichemical products. China has acceded to the Berne Copyright Convention and the Geneva Phonograms Conventions and has issued regulations for implementing international copyright treaties.

While China has established most of the laws and regulations for obtaining intellectual property rights protection, an effective system for enforcing these rights is still in its early stages of development. Some U.S. industries, especially those dependent on copyrights, have reported serious and unabating infringement problems in China. In fact, in February 1994, the International Intellectual Property Alliance (IIPA), the trade association that represents the copyright industries, recommended that China be identified as a priority foreign country in USTR's annual Special 301 review. The U.S. government is urging the government of China to continue developing an effective administrative and judicial system for resolving cases of IPR infringement and deterring further infringement. It has recommended, for example, establishing criminal penalties for copyright infringement, providing for border enforcement, and committing greater resources for enforcement activities.

In the past, the U.S. government has pursued several options in its efforts to encourage improvement in China's protection of intellectual property rights, such as (1) maintaining bilateral discussions; (2) utilizing U.S. trade law, such as Special 301; and (3) enlisting multilateral organizations, including the World Intellectual Property Organization (WIPO) and GATT, to assist in education and training. For example, in pursuing bilateral engagement, U.S. government and industry representatives have suggested that the United States could play an important role in assisting China's implementation of enforcement through IPR training and education programs. Such active involvement could give U.S. industry a prominent role in influencing China's development of an enforcement regime.

BEST COPY AVAILABLE

Agency Comments

We discussed applicable sections of this report with responsible program officials from the Office of the U.S. Trade Representative and the Departments of Agriculture, Commerce, and State during August-October, 1994. These officials suggested some technical changes and/or factual updates, which we made where appropriate, but generally agreed with the information presented. We also gave the embassy of China in Washington, D.C., an opportunity to comment on a summary of our results, but we did not receive any response from Chinese government officials.

U.S. Trade Representative officials reviewing the report included the Director for Chinese and Mongolian Affairs, the Director for GATT Affairs, and the Assistant General Counsel. Reviewers in the Department of Agriculture included the Director, Multilateral Trade Policy; and the Director, Office of Asia, Africa and Eastern Europe. We discussed sections of the report with Commerce Department officials representing the Office of China and Hong Kong, International Trade Administration; the Office of the Assistant Secretary for Export Administration; and the Office of Multilateral Affairs. In addition, the State Department's Deputy Director for Chinese and Mongolian Affairs reviewed and commented on sections of the report.

As you requested, we plan no further distribution of this report until 10 days after its issue date. At that time, we will send copies to the Secretaries of State, Commerce, and Agriculture and to the U.S. Trade Representative. We will also make copies available to other interested parties upon request.

If you have any questions concerning this report, please call me at (202) 512-4812. The major contributors to this report are listed in appendix VII.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Managing Director
International Trade, Finance, and
Competitiveness

Contents

Letter 1

Appendix I Implementation of 1992 U.S.-China Memorandum of Understanding on Market Access 14
Background 14
U.S. and Chinese Commitments Under the MOU 17
The Chinese Government Has Complied Overall With the Transparency Provisions of the MOU, but Implementation at the Provincial and Local Levels Is Lagging 18
China Has Complied With Most of Its Commitments to Liberalize Nontariff Barriers, but Several Key Issues Are Unresolved 20
China Continues to Restrict Imports of U.S. Products on the Basis of Standards and Certification Requirements the U.S. Government Deems Unjustifiable 22
The Government of China Claims That It Has Eliminated Its Import Substitution Policy 24
China Has Reduced Tariffs as Required by the MOU, but Overall Tariff Rates Remain High 25
U.S. Implementation of Its Commitments Under the Market Access MOU 27
U.S. Companies' Views on China's Progress in Implementing the Provisions of the Market Access MOU 28
Factors That May Impede China's Implementation of the Market Access MOU 31
U.S. Government Efforts to Promote Increased Market Access in China 32

Appendix II Implementation of 1992 U.S.-China MOU on the Protection of Intellectual Property 37
U.S. and Chinese Commitments Under the MOU 38
China Has Taken Steps to Strengthen Its IPR Laws, but Enforcement of Laws Is Considered Poor 39
Absence of a Clear Chinese Government Structure for IPR Enforcement Contributes to Difficulties for U.S. Firms 44
U.S. Industries Report Difficulty With IPR Enforcement and China's Application of Administrative Protection Regulations 46
The United States Has Options for Achieving Progress in China 51

Appendix III U.S. Trade Law and Procedures to Combat Foreign Trade Barriers 54
Section 301 54
Special 301 56

Appendix IV U.S. Companies Interviewed 58

Appendix V Structured Interviews of U.S. Companies Doing Business in China 59

Appendix VI Objectives, Scope, and Methodology 65

Appendix VII Major Contributors to This Report 66

Table

Table I.1: US&FCS Assessment of 10 Best Prospects for U.S. Exports to China 16

Appendix I

Implementation of 1992 U.S.-China Memorandum of Understanding on Market Access

In January 1994, the U.S. Trade Representative (USTR) determined that China was "substantially in compliance" with the market access MOU. The U.S. government recognized that the Chinese have made progress in the areas of transparency and liberalization of nontariff barriers. However, USTR and USDA found that China's compliance with the MOU was lagging in terms of ensuring that sanitary and phytosanitary standards and testing requirements were not used as import barriers. This finding contrasts with the position of Chinese government officials we met with in March 1994, who told us that China had faithfully implemented all of its commitments under the market access MOU.

Although China was determined to be "substantially in compliance" with the specific provisions of the MOU, there seems to be some difference in perception among U.S. government and private sector observers about the extent to which market access in China is actually improving. State Department and Commerce Department officials commented that the lack of transparency of China's trade laws and regulations continues to be a major problem—a perception mirrored by our interviews with 33 U.S.-based companies doing business in China. Moreover, State and Commerce Department officials expressed concern about the possibility that the Chinese government may find other ways to restrict imports that are not addressed in the market access MOU. For example, they said the central government continues to restrict imports by (1) limiting access to the foreign exchange that is necessary for the purchase of foreign goods and services; and (2) devaluing its currency, which generally has the effect of discouraging imports by raising their prices to consumers.

U.S. government and business officials told us that several factors may inhibit the implementation of the market access MOU. These include the declining Chinese central government control over provincial and local governments, the interests of Chinese government ministries in protecting their respective industries from foreign competition, and the corruption and black market activities that exist in China.

Background

When President Clinton came into office in 1993, one of his five major trade policy priorities was to "resolutely enforce existing trade agreements and U.S. trade laws to open more export markets." He cited the Pacific Rim as a key region in which to encourage increased trading opportunities. According to USTR, China and Japan are the two major Pacific Rim countries presenting the greatest opportunities but also the greatest challenges for U.S. trade relations.

With real gross domestic product (GDP) growth of almost 13 percent in 1992 and in 1993, China has been the fastest-growing major economy in the world. Based on 1993 estimates by the International Monetary Fund (IMF), China is also the world's third largest economy, after the United States and Japan. Concurrently, the loosening of government controls over foreign trade, investment, credit, and prices has contributed to the significant expansion of China's international trade—from $165 billion in 1992 to $196 billion in 1993.

The dramatic growth and reform of the Chinese economy have created increased potential for U.S. companies interested in exporting to or investing in China. In some Chinese industry sectors, estimated market growth far surpasses real GDP growth. For example, the Department of Commerce's U.S. and Foreign Commercial Service (US&FCS) predicted that there would be 20-percent growth in China's market for aircraft and aircraft parts and 42-percent market growth for computers and computer peripherals between 1993 and 1995. US&FCS also expects significant expansion of the Chinese market for U.S. telecommunications equipment, electric power systems, and industrial chemicals, among other things. Table I.1 summarizes selected market indicators for 10 sectors identified by US&FCS as the best prospects for U.S. exports to China.

BEST COPY AVAILABLE

Table I.1: US&FCS Assessment of 10 Best Prospects for U.S. Exports to China

Industry Sector	Estimated total market size 1995 (millions)	Estimated annual market growth rate 1993-95 (percent)	Estimated annual growth of imports from U.S. 1993-95 (percent)	China's estimated receptivity to U.S. products in this sector[a]
Aircraft & parts	$ 6,900	20	20	5
Electric power systems	73,130[b]	10	29	[illegible]
Computers & peripherals	1,760	42	50	5
Telecommunications equipment	7,500	20	20	4
Automotive parts & service equipment	11,050	15	5	4
Agricultural chemicals	4,670	5	–10[c]	3
Industrial chemicals	18,117	10	12	4
Plastic materials & resins	5,700	10	–12	4
Chemical production machinery	3,700	10	10	4
Building products	12,541	8	6	5

[a] US&FCS rated China's receptivity to U.S. products in these sectors on a scale of 1 to 5, with 5 as the highest rating.

[b] This number is deceptively large. Imports are possible only for that portion of the market that is denominated in foreign exchange—about $6 to 8 billion per year.

[c] US&FCS attributed decreasing U.S. sales in this sector to sales of pirated versions of U.S. agricultural chemicals in China.

Sources: U.S. Department of Commerce, 1994 Country Marketing Plan and China Commercial Guide: 1994-95.

Despite the expanding needs and market potential of China's economy, Chinese market access barriers have restricted U.S. sales in many sectors, contributing to the growing U.S. trade deficit with China, according to USTR reports. (The U.S. trade deficit with China reached an historical high of $22.8 billion in 1993.) In 1991, USTR initiated an investigation under Section 301 of the U.S. Trade Act to determine whether specific market access barriers in China are unreasonable or discriminatory and restrict U.S. commerce. The investigation included Chinese government practices, such as inaccessible or unpublished Chinese trade laws and regulations; nontariff barriers such as quantitative restrictions on imports; and restrictive standards, testing, and certification requirements. In October 1992, the United States concluded the investigation into these Chinese practices by negotiating a bilateral MOU on market access with the government of China.

Both Chinese and U.S. government officials have acknowledged that the evolution of China's economy to a truly open market will be long-term and gradual. One USTR official noted that until China has a convertible currency, a high degree of enterprise autonomy, and has removed price controls, it will be impossible to fully eliminate state control of imports. This official explained that with tight control over currency exchange and prices of goods, as well as procurement by state enterprises, the Chinese government can continue to regulate imports of foreign goods and services, even if it liberalizes most other aspects of its trade regime.

U.S. and Chinese Commitments Under the MOU

Under the provisions of the October 1992 U.S.-China MOU on market access, the government of China agreed to (1) increase the transparency of its trade regime by openly publishing all trade-related laws, regulations, and decrees and ending the use of restricted internal trade directives, among other things; (2) remove a significant number of nontariff barriers, including quantitative restrictions, import-licensing requirements, and import controls;[1] (3) eliminate standards and testing requirements as barriers to trade, especially for agricultural products; (4) eliminate import substitution policies and measures; and (5) significantly reduce selected tariffs.

For its part, the U.S. government agreed to (1) pursue liberalization of Coordinating Committee on Multilateral Export Controls (COCOM)[2] export control lists and procedures, including restrictions on exports of computers and telecommunications equipment, providing these measures are consistent with the national security interests of the United States; and (2) staunchly support China's achievement of contracting party status to the General Agreement on Tariffs and Trade (GATT) and work with the Chinese government and other GATT contracting parties to reach an acceptable protocol of accession.

---

[1] According to USTR, quantitative restrictions, also referred to as quotas, are numerical limits on imports for specified products; import-licensing requirements are rules or regulations requiring the buyer in China, whether a domestic or foreign entity, to obtain an official license or approval from the appropriate Chinese trade and/or industry sector ministry in order to import certain products; and import controls are quantitative restrictions on products designated in China's State Plan, affecting various sectors. An annex to the MOU provides a listing of specific products, by Harmonized Tariff System number, and the year-end dates by which the Chinese government has agreed to liberalize associated quantitative restrictions, import licenses, and/or controls. (The Harmonized Tariff System was established in 1988 to provide a uniform system of product classification accepted by all major trading countries.)

[2] COCOM was established in 1949 to protect the strategic technology advantage of its 17 members. The organization was officially terminated in 1994 and has not yet been replaced by a new organization to coordinate the export of strategic goods.

BEST COPY AVAILABLE

The Chinese Government Has Complied Overall With the Transparency Provisions of the MOU, but Implementation at the Provincial and Local Levels Is Lagging

USTR believes that China's commitments on transparency are acceptable and do meet the requirements of the MOU, but implementation needs to be monitored closely. The government of China did not meet all the MOU requirements by the original October 10, 1993, deadline, but by December 31, 1993, Chinese officials had made enough progress to satisfy USTR's concerns. However, the American Chamber of Commerce in Beijing[3] told us in February 1994 that a lack of transparency remained a widespread concern among U.S. companies doing business in China.

Positive Steps Taken to Improve Transparency

In the area of transparency, China has begun to publish trade regulations and policies, as agreed in the MOU. Of primary importance was the issuance of Chinese State Council Circular 69 on September 23, 1993, providing that only those Chinese trade-related laws, rules, and regulations that have been published may be enforced. This action was taken to ensure that one uniform trade policy, conforming to international standards, would be enforced across China.

In October 1993, China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) established a daily publication to serve as a central repository for trade-related laws, regulations, and other announcements. As of January 1994, MOFTEC had published 52 previously confidential trade documents in this journal and rescinded 381 other confidential trade documents. MOFTEC also published a number of trade-related documents in other publications in Beijing and in the provinces, including two volumes of trade and investment regulations.

In complying with the MOU, the government of China has taken additional steps, such as (1) publishing lists of products subject to import licenses, quotas, and import controls by Harmonized System tariff category for 1993;[4] (2) publishing in the journal China Tendering a list of major central government projects and selected projects at the provincial level planned through the year 2000; and (3) ordering Chinese provinces to bring their trade rules and regulations in line with those of the central government.

---

[3] The American Chamber of Commerce in Beijing has a membership of approximately 300 U.S. companies with operations in China.

[4] According to USTR, these lists do not include adequate information on the quantity or value of specific products affected by these controls.

Although a number of the MOU provisions remain to be addressed, Chinese officials made commitments in December 1993 negotiations with USTR to, among other things, (1) provide to the United States all "internal" trade-related documents that continue to be in effect and that have been issued by central government ministries other than MOFTEC; (2) undertake investigations in 1994 to determine whether local governments have implemented trade regulations that have not been published or issued trade-related investment measures that are not in compliance with central government policies; and (3) make public all trade documents and provide to the United States a list of all previously published trade-related documents.

Areas Where Progress on Transparency Has Been Slow

Although China has recently taken steps to improve transparency, China's trade regime is still far from transparent, according to 1994 statements from the Commerce Department and the American Chamber of Commerce in Beijing. U.S. government and private sector observers we spoke to seemed to agree that the biggest challenge will be getting implementation and enforcement at the provincial and local levels. In response to these concerns, China's central government has committed to completing investigations to ascertain the level of transparency in key commercial provinces. Any internal and unpublished trade documents are to be made public and available to foreign governments and traders.

In addition, we were told the government of China has not yet ensured that its trade rules are applied in a uniform manner. Arbitrary application of trade rules, particularly by the Chinese Customs Service, is widespread and a serious impediment to market access in China, according to USTR. Further, USTR officials said that MOFTEC and other ministries responsible for trade in specific industries do not adequately coordinate their policies and decisions, which adds to the confusion U.S. companies face when doing business in China. In our March 1994 interview, State Economic and Trade Commission (SETC) officials told us that the government of China is committed to implementing import policies consistently across all levels of government (central, provincial, and local).

Insufficient commercial information on major projects remains a major concern for the U.S. Commerce Department. With the exception of World Bank and Asian Development Bank-financed projects, Commerce officials said that Chinese bid solicitation and contract award processes are generally not made public. Although the government of China gave the U.S. government a listing of projects to be completed between now and the year 2000, detailed information regarding planning status, project funding, projected tender date, and key government contacts was not included. According to the Commerce Department, such information is often revealed to countries offering more extensive tied aid options than the United States provides.[5] Such discriminatory treatment may put U.S. companies at a disadvantage when competing with other foreign companies for project contracts.

China Has Complied With Most of Its Commitments to Liberalize Nontariff Barriers, but Several Key Issues Are Unresolved

In the MOU, China pledged to reform its import regime by reducing nontariff barriers to imports. These nontariff barriers include quantitative restrictions, import-licensing requirements, and import controls for the product categories listed in the annex to the MOU. In the MOU, China pledged to dismantle almost 90 percent of its nontariff barriers between 1992 and 1997. Officials of China's State Economic and Trade Commission (SETC) told us that the government's goal to abandon the centrally planned economy and move to a socialist market economy was the motivating force behind its commitment to reduce nontariff barriers.[6] According to USTR, China has complied with its MOU commitments to reduce import-licensing requirements, quantitative restrictions, and controls.

Positive Steps Taken to Eliminate Nontariff Barriers

China has made good progress in reducing nontariff barriers to trade since signing the market access MOU, according to USTR. For example, USTR data show that the Chinese government reduced the total number of quantitative restrictions from about 3,000 in 1992 to about 400 in 1994.

In late 1992, the government of China took some important initial steps toward eliminating nontariff barriers. By December 31, 1992, China had eliminated import restrictions, quantitative restrictions, licensing requirements, and controls on goods such as instant print film, instant cameras, and certain telecommunications equipment, according to the schedule in the annex to the agreement. In addition, China's elimination of restrictions on its digital-switching systems market[7] allowed two U.S. suppliers to sign agreements for major telecommunications projects. Since that time, one U.S. telecommunications company reported that it had sold about $500 million in digital-switching systems equipment to China. Further, China removed import-licensing and quota restrictions on certain chemical products in 1992, according to officials of China's Ministry of Chemical Industry and USTR.

---

[5] "Tied aid" refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. Until recently, the U.S. government generally discouraged the use of tied aid for major capital projects, due to concerns about the possible distortion of trade allocation in developing countries. However, in February 1994, the U.S. Export-Import Bank (Eximbank) released a draft of its new tied aid policies and procedures, signaling a more proactive approach to tied aid. As part of this effort, the Eximbank is administering a new tied aid capital projects fund.

[6] SETC was formed in 1993 by the State Council. SETC's mandate includes management of the day-to-day operation of the economy, reform of state enterprises, and coordination of foreign trade policies.

In 1993, China took additional steps to implement the MOU. For example, China eliminated import restrictions for 16 high-priority U.S. export categories, including 258 items, such as food products, metals, construction materials, and aircraft. China also eliminated most restrictions on 171 machinery and electronics products (subject to new procurement rules) and lifted ahead of schedule restrictions on integrated circuits and some chemical products. Later in the year, China significantly liberalized quantitative restrictions on products listed in an annex to the MOU, including heavy machinery, some auto parts, computers, and medical equipment. For example, China reduced quantitative restrictions on electronics and heavy machinery products by over 40 percent, according to a USTR official. In addition, China eliminated internal quotas on imports of distilled spirits.

Regarding China's import-licensing and approval system, China has both reduced licensing requirements[8] and increased the transparency of the system. In the MOU, China agreed to eliminate 75 percent of its import-licensing requirements over a 2-year period, according to a USTR report. In keeping with this agreement, China lifted the first set of import-licensing requirements in December 1993. USTR expects this liberalization to greatly benefit U.S. exporters of agricultural products, iron and steel products, commercial aircraft, and electrical machinery.

Further, the Chinese government published a document outlining a simplified import-licensing and approval process. According to USTR reports, obtaining permission to import products now subject to quotas or quantitative restrictions appears to be considerably simpler and more transparent than in the past.

---

[7] China's State Council Document 68, issued in 1989, restricted the digital-switching systems market in China to three foreign suppliers.

[8] Before implementation of the MOU, China's import-licensing system affected approximately 50 percent of the value of China's imports, including 53 major product categories of consumer goods, raw materials, and production equipment.

Areas Where Progress on Liberalizing Nontariff Barriers Has Been Slow

The U.S. and Chinese governments are still working to resolve some issues relating to nontariff barriers, such as investigating U.S. industry complaints about quotas and other import restrictions that are either new or have been recently discovered. Although China has pledged to remove import controls from numerous items, some of these items have been placed on newly created lists as part of China's efforts to restructure its system for controlling imports of electronic and machinery products, according to a Commerce Department report. Under this new system, certain items previously subject to import controls would now be subject to quantitative restrictions or new procurement regulations and approvals. For example, USTR officials told us that 18 categories of goods, such as autos, computers, and audiovisual equipment, would be subject to new controls.

In addition, China maintains a significant number of hidden quotas and nontransparent regulations that effectively keep U.S. intellectual property products out of the market, according to USTR. These include quotas on the import of foreign films and sound recordings. The International Intellectual Property Alliance (IIPA) reported in July 1994 that China maintains an informal, nontransparent quota on foreign recordings of approximately 120 foreign record releases per year, which would limit the number of U.S. musical compositions that could enter China. The effect of these quotas is compounded by an apparent ban on foreign ownership in a joint venture or enterprise designed to produce and distribute recorded music. IIPA has requested that the U.S. government negotiate with the government of China to reduce Chinese quotas and investment restrictions in the sound recording industry as well as in other industries, such as motion pictures, book publishing, and computer software.

China Continues to Restrict Imports of U.S. Products on the Basis of Standards and Certification Requirements the U.S. Government Deems Unjustifiable

Under the standards provisions of the market access MOU, China agreed that (1) all sanitary and phytosanitary (animal and plant health) standards and testing requirements must be based on sound science and administered in a manner that does not impede or create barriers to imported products; and (2) the U.S. and Chinese governments will apply uniformly across their respective countries the same testing and certification standards to imported and domestic nonagricultural products.

Despite these commitments, U.S. government officials reported in August 1994 that China has continued to use standards and certification requirements as barriers to trade. According to U.S. Department of

Agriculture (USDA) and USTR officials, China has yet to comply with many of the agricultural standards provisions of the market access MOU. Despite high-level efforts, China has continued to refuse to use internationally recognized pest risk analysis techniques in the application of its sanitary and phytosanitary regulations, according to USDA. For example, China continues to apply sanitary and phytosanitary standards to U.S. wheat, apples, tobacco, grapes, and other fruits, as well as some livestock genetics, based on health and phytosanitary concerns that the U.S. government claims are not scientifically justified.

Positive Steps Taken to Implement Standards Provisions

According to USDA officials, China has taken some steps toward basing its agricultural standards assessments on sound science. To date, the government of China has (1) signed protocols to eliminate scientifically unjustifiable sanitary standards for imports of pigs, dogs, and bovine semen; (2) allowed a trial shipment of wheat from the Pacific Northwest to Hainan Island, China's southernmost province, in December 1993; and (3) decided to allow imports of two varieties of Washington State apples from selected orchards and packing houses to the Chinese mainland in June 1994.

Areas Where Progress on Standards Has Been Slow

Despite some positive actions, Chinese progress in complying with the agricultural standards provisions of the MOU has lagged behind its efforts in other areas, and significant standards-related barriers to U.S. imports remain, according to U.S. government officials. For example, the Chinese government continues to ban U.S. exports of Pacific Northwest wheat to mainland China, claiming that it has concerns about Tellitia Controversa Kuhn (TCK) smut—a type of fungus—infestation. USDA officials told us that these concerns are not scientifically supported. They also pointed out that although China is now accepting Pacific Northwest wheat shipments into Hainan Island, the lack of milling facilities and the inadequate transportation infrastructure between Hainan Island and the mainland will preclude any near-term significant increase in U.S. wheat exports to China.

In addition, the government of China still bans U.S. exports of grapes, apples, and other fruit from the state of California due to concerns about medfly infestation. USDA officials told us that China is the only country in the world that (1) restricts importation of U.S. fruit based on medfly concerns and (2) cites TCK smut as a reason to restrict wheat imports. Further, the United States has not yet obtained commitments from China on liberalizing restrictions on imports of stone fruit (plums, peaches, and nectarines), grapes, leaf tobacco, and some animal genetic products. According to USDA, the U.S. government will continue to pursue progress in China's compliance with the agricultural standards provisions of the market access MOU in the context of negotiations on China's accession to GATT/WTO.

Regarding nonagricultural standards, USTR reported that Chinese testing and certification requirements add significant cost and uncertainty to the transactions of U.S. exporters. Since China generally does not accept U.S. certification of product quality, U.S. companies must go through a time-consuming and expensive process to obtain a Chinese quality license. For example, U.S. companies exporting automobiles to China must provide two free samples of their product, pay $40,000 in testing fees, and finance the inspection of their factories in the United States by Chinese officials. The standards and specifications against which foreign products are evaluated are often unavailable to the exporter. Further, the government of China often imposes higher standards and testing requirements for foreign products than for domestically produced goods. According to USTR, these factors combine to protect Chinese manufacturers and exclude foreign products considered unnecessary for China's development.

The Government of China Claims That It Has Eliminated Its Import Substitution Policy

Before the market access MOU, China had a longstanding import substitution policy, allowing Chinese government agencies to deny permission to import a foreign product if a domestic alternative existed. The government of China claims that it has rescinded its import substitution policy, as promised in the MOU. USTR officials told us in a September 1994 interview that they believe China no longer practices import substitution. In March 1994 interviews with Chinese SETC officials, we were told that the Chinese government has eliminated its import substitution list of 1,700 products.

A related issue involves China's local content requirements[9] and technology transfer policies, which are similarly designed to protect and promote the development of Chinese domestic industries. According to State Department and USTR officials, the Chinese government is putting pressure on U.S. companies in joint ventures to increase local content in their products within specific time periods. U.S. companies have reported to USTR that local content requirements are commonplace and nontransparent, despite China's MOU commitment not to condition issuance of import licenses upon such things as transfer of technology, investment in China, or provincial and municipal local content requirements. For example, U.S. automobile and electronics manufacturers operating in China have had to increase their use of Chinese parts and supplies in order to meet local content requirements. In some cases, they have had difficulty locating Chinese components up to their quality standards, thus lowering the quality of the final product.

---

[9] Local content requirements oblige an investor to purchase or use a specific amount of inputs from local suppliers.

China Has Reduced Tariffs as Required by the MOU, but Overall Tariff Rates Remain High

Positive Steps Taken

According to USTR and Chinese government officials, China has met its MOU commitment to significantly reduce tariffs that were raised in 1988 for product categories, such as edible fruits and nuts, selected chemical products, machinery and mechanical appliances, and photographic or cinematographic goods. To this end, the government of China reduced tariffs on over 200 items by an overall average of 50 percent.

In addition to fulfilling its commitments under the market access MOU, China has indicated an interest in gradually bringing its tariff system into conformity with international standards. In early 1992, the government of China reduced import tariffs on 225 products from an average rate of 45 percent to 30 percent and abolished its import regulatory tax, which applied a 20- to 80-percent surcharge on 18 categories of goods. At the end of 1992, China lowered tariffs by an average of 7 percent on 3,371 items, according to Chinese government officials and USTR reports. For example, China lowered tariffs on instant print film and instant cameras from the rate of 80 percent ad valorem to 5 percent, on chocolate and sugar confectionaries from 70 percent ad valorem to 15 percent, and on apples from 40 percent ad valorem to 15 percent. At the end of 1993, China reduced tariffs on an additional 2,818 items by an overall average of 9 percent.

The U.S. Government Is Encouraging Further Tariff Reductions

Although China has fully complied with the tariff reduction commitments in the market access MOU, overall Chinese tariff rates are still prohibitively high, according to USTR statements. A 1994 World Bank study[10] found that in 1992, before China had fully implemented its MOU commitments, China's unweighted average tariff rate was 43 percent, while its trade-weighted average tariff rate was 32 percent.[11] At that time, China's average trade-weighted tariff rate was equal to Brazil's and was the third highest among large developing countries after India and Pakistan, according to the World Bank study.[12] The World Bank found that China's average unweighted tariff rates were typical of most large developing countries in that they were relatively higher for manufactured consumer goods than for agriculture, mining, or capital goods.

U.S. government officials reported other concerns associated with Chinese tariffs that may adversely affect U.S. companies doing business in China. For example, Chinese tariff rates may vary for the same product, depending on whether the product is eligible for an exemption. If an item is incorporated into China's state or sectoral plans, such as certain advanced technologies, the Chinese government may apply a tariff that is significantly lower than published rates. U.S. companies have also complained to USTR about the lack of uniformity in duty rates at different Chinese ports, where local officials may negotiate special rates with Chinese customs officers. Moreover, Commerce Department officials in China pointed out that although tariffs have been lowered on many products, the combined effect of China's recently devalued currency and the new value-added tax has increased the tariffs and prices for these products overall.[13] As a result, U.S. exporters may still have to charge prices that are prohibitively high for Chinese consumers.

---

[10] China: Foreign Trade Reform, The World Bank (Washington, D.C.: Feb. 1994).

[11] A "weighted" average tariff rate factors in the value of trade at world prices in each product category, so that product categories in which imports are minimal receive relatively less weight than those with a higher level of imports.

[12] These developing countries included Argentina, Brazil, China, Colombia, Egypt, Hungary, India, Kenya, Pakistan, and the Philippines.

[13] As of January 1994, U.S. exports to China are subject to China's new value-added tax, which together with a new consumption tax, replaces the 1958 consolidated industrial and commercial tax. According to a Commerce Department report, the value-added tax rate for various products is higher, on average, than the former consolidated industrial and commercial tax, except for products referred to as luxury items.

U.S. Implementation of Its Commitments Under the Market Access MOU

USTR and Commerce Department officials said that the U.S. government has fully met its MOU commitments to (1) pursue the liberalization of export restrictions on products destined for China and (2) support China's efforts to join GATT/WTO.

Export Controls

The United States made three specific MOU commitments to liberalize export restrictions on products destined for China. These included (1) pursuing the liberalization of COCOM export controls, (2) considering liberalized treatment of computer exports for civilian end-use, and (3) significantly liberalizing controls on exports of telecommunications products.

Regarding the first commitment, the United States and other COCOM members agreed in November 1993 to terminate COCOM and to establish a new organization to coordinate the export of strategic goods. COCOM went out of existance on March 31, 1994. Since then, the United States and its COCOM allies agreed to work toward completing negotiations on establishing a new multilateral export control regime to succeed COCOM by late 1994.[14] However, as of December 1994, a new organization to replace COCOM had not yet been formed. In the interim period between the end of COCOM and the beginning of the new regime, former COCOM and COCOM-cooperating countries have committed to maintain the existing control lists of controlled goods and technologies until agreement is reached on lists for the new regime, and the new regime begins its operations. All licensing decisions are currently subject to national discretion.

Regarding the second and third MOU commitments on liberalizing export controls, the U.S. administration announced on April 4, 1994, a new general licensing procedure referred to as the "GLX." This procedure allows liberalized treatment for a broad range of controlled goods and technologies destined for civilian end-users in formerly proscribed destinations, including the former Soviet Republics, Eastern Europe, and China. For example, the GLX procedure allows U.S. companies and individuals to export computers with the capability of up to 1,000 million theoretical operations per second (MTOPS) and virtually all civilian

---

[14] Founding members of the new regime are expected to include the former COCOM members and those countries designated by COCOM as cooperating countries (Ireland, Austria, Sweden, Finland, Switzerland, and New Zealand). Russia has been invited to be a founding member of the new regime, provided it adopts the appropriate national policies required of members. Additional members will be admitted by consensus.

BEST COPY AVAILABLE 497

telecommunications products to these destinations. According to the Department of Commerce, the removal of certain individual validated license requests by the GLX procedure will eliminate 35 percent of the individual validated licenses previously required for proscribed destinations. Certain countries—such as Cuba, Libya, Iran, and Iraq—will continue to be subject to controls on exports of U.S. telecommunications and computer equipment. In addition, the United States will retain strict controls on items that could assist in the development of weapons of mass destruction or ballistic missiles.

China's Application to Join GATT/WTO

Since 1982, the U.S. and Chinese governments have met in both bilateral and multilateral contexts to discuss the conditions for China's accession to GATT or its successor, WTO, as a result of a completed Uruguay Round. Negotiators must resolve a number of critical issues before formulating a protocol of accession for China. Among these concerns are (1) the lack of transparency in China's trade laws and regulations, (2) the timetable for China's tariff reductions, and (3) the ability of China's central government to apply GATT 1994 obligations uniformly across regions and provinces. (These negotiations are discussed in greater detail in the final section of this appendix.)

U.S. Companies' Views on China's Progress in Implementing the Provisions of the Market Access MOU

The most frequent concern reported by the 33 U.S.-based companies who responded to our structured interview questions on market access issues was transparency, followed by tariffs and nontariff barriers. Fewer companies reported concerns or problems related to Chinese import substitution or product standards and testing policies.[19]

Transparency

Fifty-two percent of the 33 companies that responded to our structured interview questions about China's implementation of the provisions of the market access MOU told us that they have experienced problems related to the transparency of China's trade regulations, laws, and policies. However, six of our respondents said that transparency has been improving as China has increased its efforts to move to a market economy. Twenty-seven percent of the respondents said that transparency has not been a major problem for their companies. Among the latter, two companies said that their local staffs have been instrumental in obtaining and understanding Chinese trade policies.

---

[19] The relative lack of concern about Chinese product standards among the 33 companies we interviewed may be attributed, in part, to the fact that only 1 of the companies we interviewed was an exporter of agricultural products.

A majority of the structured interview respondents who identified transparency as a problem reported that China's trade and investment laws are unclear and administered in a seemingly arbitrary manner. For example, a pharmaceutical company told us that Chinese enforcement of its requirements for product testing and registration seemed to vary from one case to the next, depending on the company involved. A computer company reported considerable difficulty in understanding and applying Chinese regulations regarding imports, foreign exchange, and employment of domestic labor. Other companies noted that many Chinese trade and investment regulations are still unpublished or difficult to interpret. Two companies commented that business transactions are based more on personal contacts or negotiation than on written policies. Companies we interviewed also pointed out variations in trade and investment policies among the Chinese government ministries.

Six companies reported that problems with transparency were accentuated at the provincial and local levels. For example, some companies perceived inconsistency in the application of Chinese trade policies between the central government and the provincial/local government levels. One company official noted that the national laws and regulations are generally published but that provincial and local ones are not. He added that increasingly powerful local bureaucrats who want to maximize their economic flexibility may be less apt to publish local trade regulations. Another company official observed that the farther away from Beijing one is, the greater the variability in the interpretation and implementation of laws and regulations.

Nontariff Barriers

Respondents to our market access questions reported mixed experiences with Chinese nontariff barriers. One-third of the 33 companies that responded to our questions on Chinese market access reported that they had experienced problems related to nontariff barriers on imports. At the same time, 10 companies said Chinese nontariff barriers posed no major problems for their business in China, while 2 said the situation seemed to be improving. The remainder said that the issue of nontariff barriers was either not applicable to their businesses or that their companies had too little experience in this area to comment.

Among the companies that reported problems related to nontariff barriers, import-licensing requirements were the most frequently mentioned concern. Since the buyers of products are often Chinese state-owned enterprises, the central government is able to exert a significant amount of control over the issuance of import licenses, according to some U.S. companies. License issuance can be based on factors ranging from foreign currency availability to protection of state or local industries to personal relationships between plant owners and government officials. In addition, the Chinese government may use the import-licensing process to promote other interests, such as technology transfer or increased local content. For example, one company believed that China was attempting to pressure U.S. joint venture companies into increasing technology transfer by requiring a certain minimum percentage of local content in order to obtain import licenses.

Standards

Only 12 percent of the companies we contacted told us that they had experienced problems related to Chinese product standards. For example, one company expressed concern that Chinese vehicle design standards are based on European, rather than U.S., standards. Another company noted that Chinese product standards sometimes differ from global standards. However, a larger number of companies pointed out that since U.S. technologies were still more advanced than Chinese technologies in their industries, Chinese product standards have not been an impediment.

Import Substitution

Twenty-seven percent of the U.S. companies we interviewed reported problems related to Chinese import substitution practices. One company official told us that he perceived an increase in the instances of import substitution for high-technology products, such as computer equipment.

Tariffs

After transparency, the high level of Chinese tariffs was the second most frequently mentioned concern among the respondents to our market access questions. In some cases, Chinese tariffs and, consequently, prices, are so high that U.S. products are affordable only to the wealthiest consumers in China. Several other companies reported that in addition to the imposition of unusually high tariffs, Chinese tariffs are not uniformly applied throughout China. For example, the tariff rate for one product may vary depending on (1) the supplier's personal contacts in Chinese ministries, (2) the port to which the product is shipped, or (3) the location of company operations in China. Other companies noted that the

BEST COPY AVAILABLE

establishment of the new Chinese value-added tax has reduced the benefits of China's recent tariff liberalization in certain product categories. One U.S. company official noted that her company feels pressure to establish operations in China because of high tariff rates.

Among those companies that told us that Chinese tariffs were not a major problem were companies that (1) have operations in China and/or (2) produce items that are not competing with the local Chinese industries.

Factors That May Impede China's Implementation of the Market Access MOU

U.S. government officials told us that declining central government control over provincial and local governments has inhibited the implementation of China's MOU commitments. Although provincial leaders have identified legal reform as a priority, progress in drafting new standardized regulations has been slow, according to one State Department official. Municipal and county bureaucracies interested in maintaining local autonomy may be resistant to implementing central government regulations. To help address this problem, China's MOFTEC is running seminars to educate and train the provincial and local governments on how to implement the MOU, according to a U.S. embassy official. In addition, the central government is attempting to reassert control over the provinces by developing new taxation policies to be applied throughout China.

Another obstacle to implementing the MOU arises from the fact that in many cases, the ministry that oversees the manufacturing of a particular product is also involved in the import approval process. Since these ministries have an interest in protecting state-owned domestic industries, they may administer import policies in such a way as to restrict imports. A Commerce Department official added that as certain ministries see their power eroding, they are more inclined to "drag their feet" on implementing market-opening initiatives.

Finally, corruption and black market activities, including smuggling and piracy, may impede the implementation of the MOU, according to State and Commerce Department officials. However, it is difficult to determine the extent to which these activities affect China's market-opening initiatives and level of imports.

U.S. Government Efforts to Promote Increased Market Access in China

The U.S. government has a variety of bilateral and multilateral tools with which to encourage China to increase access to its growing market. On the bilateral level, government/industry exchanges and training could help China to develop the legal and financial institutions necessary for participation in international markets, according to U.S. government officials. For example, the governments of the United States and China signed a framework arrangement in August 1994 under the U.S.-China Joint Commission on Commerce and Trade[16] (JCCT) to enhance bilateral cooperation in certain industry sectors.[17]

Proposed cooperative activities would generally take place within the JCCT Business Development Working Group and would initially include seven industry sectors, such as information technologies, energy, and transportation. (Other sectors may be included as mutually agreed). In addition, the JCCT arrangement proposes activities, such as (1) establishing technical exchange programs; (2) establishing information centers or other means to exchange industrial, commercial, scientific, and technological information; and (3) facilitating the organization of bilateral trade symposia, seminars, and expositions. For instance, under the Joint Statement on Cooperation in Commercial Law (one component of the broader arrangement) the United States and China agreed to explore ways to expand cooperation in the area of commercial law, such as organizing joint legal seminars, exchanging legal experts, and disseminating the laws of each country. In addition, the Commerce Department and China's MOFTEC signed a memorandum of understanding to develop proposals for a Joint Commercial Strategy Center. The purpose of this center would be to facilitate mutual understanding of each country's commercial policies, business environment, and factors affecting economic growth and stability.

USDA also has technical assistance and export promotion programs that could help to increase China's receptivity to U.S. agricultural products. USDA officials told us that the U.S. government has tremendous technical expertise in food and drug safety testing that could be of assistance to China and at the same time improve market access for U.S. products. In addition, USDA's Office of International Cooperation and Development has a scholarly exchange program with China's Ministry of Science and Technology.

---

[16] JCCT, co-chaired by Commerce and China's MOFTEC, was established in 1983 to provide a forum for consideration of bilateral trade and investment issues and to serve as a vehicle for promoting commercial relations. The U.S. government suspended annual high-level JCCT meetings from June 1989 to December 1993 in response to the Chinese military crackdown in Tiananmen Square. Since late 1993, the U.S. and China have been formulating new JCCT initiatives.

[17] The majority of the activities proposed under the framework arrangement are in the early planning stages, and implementation is contingent upon obtaining funding from government or private sector sources.

U.S. trade laws authorize USTR to negotiate with our trading partners, including China, to promote more open international markets. If the Chinese government failed to follow through on its market access MOU commitments, USTR would have authority under U.S. trade law to reinstate Section 301 investigation procedures, possibly resulting in the imposition of higher tariffs on selected Chinese imports.

To promote Chinese market access in the multilateral context, the U.S. government could continue to work with China and other GATT/WTO contracting parties to develop an acceptable protocol for China's accession. China's desire to join WTO as a founding member gives the United States the opportunity to encourage China to broaden its economic reform program and build a free market trading system based on GATT principles.

Status of Recent Negotiations on China's Application for GATT/WTO Membership

The commitments that the Chinese government accepted in the market access MOU were designed to bring China's trade regime closer to the international trade standards required by GATT. Thus, from the U.S. government's perspective, China's progress in implementing the market access MOU provisions serves as an important indicator of China's readiness to undertake GATT 1994 obligations. As of October 1994, the U.S. government, the Chinese government, and other GATT contracting parties were engaged in negotiations to develop a mutually acceptable protocol of accession to enable China to join GATT/WTO.

Background

The former Republic of China was an original member of GATT in 1948, but the nationalist government of Taiwan withdrew from GATT in 1950 after the Communist revolution in China. The People's Republic of China (PRC) secured GATT observer status in 1982 and applied for full GATT membership in 1986. The GATT Working Group on China met for the first time in 1987 to begin negotiating the terms under which China might eventually join GATT.

Negotiations stalled in the spring of 1989 as China curbed its economic and trade reforms but regained momentum in 1992 when the government resumed its reform efforts. In addition, the successful negotiation of the U.S.-China MOU on market access in October 1992 gave GATT contracting parties renewed confidence in China's ability to meet GATT eligibility requirements.

Since 1992, the U.S. and Chinese governments have met in both bilateral and multilateral contexts to discuss the conditions for China's accession to GATT or its successor, WTO. The China GATT Working Party (including GATT members and Chinese negotiators) met in Geneva, Switzerland, in June and July 1994 to begin consideration of specific issues for China's terms of accession. U.S. and Chinese GATT delegations met bilaterally in September 1994 to discuss all aspects of the protocol package, including Chinese market access commitments for goods and services, commitments on internal supports and export subsidies for agriculture, and the terms of adherence to the GATT 1994 agreement. These technical-level bilateral meetings should contribute to progress in the negotiations.

GATT Working Group Negotiating Document

In June and July 1994, the Chairman of the GATT Working Party circulated a negotiating document based on contracting party contributions containing possible commitment terms for China's accession to GATT/WTO. This document was intended to create a negotiating framework for further discussion with China on commitments to be contained in the accession documents, including the protocol. At the end of July, China tabled a response negotiating document in the same format that, according to USTR, falls significantly short of the breadth and level of commitment anticipated by the contracting parties.[10] Further refinements are likely as a result of China's ongoing bilateral discussion with the United States and other WTO members, and the final shape of China's protocol will be greatly influenced by the government of China's willingness to adopt and enforce basic GATT 1994 provisions in its trade regime from the date of accession.

Issues to Be Resolved

According to USTR, as of October 1994, GATT/WTO members and Chinese negotiators must resolve a number of critical issues before formulating a protocol of accession for China. Among these concerns are

- the lack of transparency in China's trade laws and regulations;
- the timetable and level of China's tariff reductions;
- the elimination of nontariff measures not permitted under GATT 1994;

---

[10] USTR officials stressed that neither document constitutes a draft protocol, nor is it certain that the document finally negotiated with China as a protocol will contain all of the current elements.

- the phased elimination of industrial subsidies prohibited by the Uruguay Round Subsidies Agreement;
- the expansion of trading rights and elimination of designated trade in certain products by certain firms;
- the ability of China's central government to apply GATT 1994 obligations uniformly across regions and provinces;
- the extension of national treatment to imported goods and to foreign companies operating in China, particularly in the services industry;
- phasing out of state-fixed prices;
- China's ability to provide protection for intellectual property rights;
- the provisions of a "safeguards" clause to protect WTO members against sudden surges of Chinese exports;[19]
- nontariff measures on agricultural products; and
- foreign exchange issues.

U.S. Position Compared to Other Countries' Views

The U.S. government and other GATT 1994 contracting parties participating in the negotiation share many of the same concerns about China's willingness to undertake basic GATT 1994 obligations and its ability to apply them to its trade regime from the date of accession, according to USTR. To a greater or lesser extent, and depending on the issue, most current contracting parties are willing to discuss appropriate transition periods for implementation of specific aspects of GATT 1994 for China. None, however, are willing to automatically grant China all the exemptions from GATT 1994 provisions allowed for developing countries.

The U.S. government has held firm in its view that China's request for transition periods in some areas must be matched with appropriate commitments from China on the basic issues, e.g., specific schedules of elimination for Chinese trade policies that are inconsistent with GATT 1994 standards; establishment of a unified foreign exchange market; additional Chinese offers for increased market access for goods and services, including financial services; and commitments recognizing from the date of accession central GATT 1994 obligations in trading rights, market access, nondiscrimination, and national treatment.

Earlier in 1994, the Commission of the European Union (EU) appeared to support China's accession to GATT by the end of 1994 on the basis of less stringent commitments. More recent EU efforts have focussed on the need for greater market access commitments by China. Canada and Japan have also tabled significant market access requests and have agreed that progress on completion of the protocol terms should not outstrip bilateral progress on market access commitments. Members of the Cairns Group of agricultural exporting countries have pressed for greater market access and transparency in the area of state-traded agricultural products. Finally, the EU places great emphasis on the inclusion of a special safeguard mechanism in the accession provisions to address excessive imports from China during the transitional period.

---

[19] A safeguard is a temporary import control or other trade restriction that a country imposes to prevent injury to domestic industry from increased imports. It is designed to facilitate the adjustment of domestic industries to the influx of fairly traded imports.

The U.S. government has also expressed concerns about the extent to which China's economy remains under state ownership,[20] which, in effect, confers control and direction; China's refusal to agree to publish quotas on state-traded agricultural products; and China's demand that it automatically be entitled to take advantage of the exemptions from standards GATT 1994 confers on developing countries. Further, U.S. negotiators have raised questions about the consistency between GATT 1994 policies and (1) the provisions of China's new Foreign Trade Law and (2) the measures employed in the State Industrial Programs to develop certain industries. To date, China has declined to make any commitment to GATT 1994 consistency in these areas that would address U.S. concerns.

China's Position

In response to concerns raised by the United States and other GATT/WTO members, the government of China said that it is taking steps to improve the transparency of its trade regime and liberalize nontariff barriers as agreed in the 1992 U.S.-China market access MOU. However, Chinese government officials maintain that as a developing country, China should be allowed to take a gradual approach toward trade reform in order to protect its economy. In addition, Chinese government officials contend that many state-owned enterprises are now operating according to market principles.

---

[20] According to a Congressional Research Service official, 80 percent of Chinese industry is owned by either central, provincial, or local government entities.

Implementation of 1992 U.S.-China MOU on the Protection of Intellectual Property

In recent years, numerous U.S. industries have been drawn to the rapid growth and development of the Chinese economy and the huge potential market it represents. However, without the presence of an effective system for the protection of intellectual property rights (IPR) in China, major U.S. industries also face the threat of significant trade losses, according to USTR. U.S. copyright industries, those involved in the production and sales of sound recordings, motion pictures, computer software, and books, have estimated losses of $827 million in 1993 due to the infringement of their copyrights in China. Other U.S. industries, especially those in high-technology areas that depend on patent protection, have been concerned about exporting or expanding business operations in China without strong assurance that their intellectual property will be protected and their rights enforced. In addition, U.S. companies have become increasingly concerned that their products, manufactured illegally in China, are being exported and sold in third-country markets.

The evolution of China's legal framework to protect intellectual property is a fairly recent development. In 1980, China joined the United Nations' (U.N.) World Intellectual Property Organization (WIPO); and in the following decade, China adopted and enacted several laws protecting the major forms of intellectual property (patents, copyrights, and trademarks). The Chinese laws and regulations protecting intellectual property and their effective dates are as follows:

- the Chinese Trademark Law, effective on March 1, 1983;
- the Chinese Patent Law, effective on April 1, 1985; and
- the Chinese Copyright Law, effective on June 1, 1991, and Regulations for the Protection of Computer Software effective in the same month.

For several years, the United States and China discussed ways to improve China's regime for intellectual property protection and strengthen protection for U.S. intellectual property in China; however, USTR determined in 1991 that China did not provide adequate or effective protection of U.S. intellectual property rights. On April 26, 1991, pursuant to the Special 301 provision[1] of the Trade Act of 1974, USTR identified

---

[1] Pursuant to section 182 of the Trade Act of 1974, 19 U.S.C. 2242, USTR must annually identify those countries that deny adequate and effective protection for intellectual property rights or deny fair and equitable market access for persons that rely on intellectual property protection.

China as a "priority foreign country";[4] on May 26, 1991, USTR initiated an investigation into China's intellectual property rights practices. Under Special 301, the U.S. government could impose trade sanctions on China if the investigation resulted in negative findings and the two governments were not able to reach an agreement successfully resolving their issues.

U.S. and Chinese Commitments Under the MOU

On January 17, 1992, the governments of the United States and China signed an MOU that resolved USTR's 1991 investigation into China's protection of intellectual property rights. Under the major provisions of this agreement, the government of China agreed to

- revise its patent law, including providing protection for chemical products and processes and extending patent protection from 15 years to 20 years from the filing date;
- provide administrative protection[5] for U.S. pharmaceutical and agricultural chemical product inventions that meet specific conditions;
- accede to the Berne Convention and the Geneva Phonograms Convention and revise its copyright law and regulations in accordance with these conventions and the MOU;
- enact a law providing protection for trade secrets[6] before January 1, 1994;
- provide effective procedures and remedies to prevent or stop, internally and at the borders, infringement of intellectual property rights and to deter further infringement; and
- consult promptly at the request of the U.S. government on matters relating to the protection and enforcement of intellectual property rights.

The U.S. government agreed to

- provide effective procedures and remedies to prevent or stop, internally and at the borders, infringement of intellectual property rights and to deter further infringement;

---

[4] Countries that are identified as priority foreign countries are potentially subject to an investigation under Section 301 of the Trade Act of 1974 conducted on an accelerated time frame. In addition, USTR may identify a trading partner as a priority foreign country or remove such identification whenever warranted.

[5] Administrative protection, which is also referred to as "pipeline" protection, requires a country that provides product patent protection for pharmaceuticals and agrichemicals for the first time to grant patent or administrative patent-like protection for those inventions not previously considered to be patentable subject matter, provided that the inventions were not yet marketed in the country and the inventions are currently under patent in the United States. The term of such protection is usually the term remaining on the U.S. patent.

[6] Trade secrets are technical and/or business information, such as formulas, methods, or processes, that derive value from not being generally known to the public.

- consult promptly at the request of the Chinese government on matters relating to the protection and enforcement of intellectual property rights; and
- terminate its Special 301 investigation of China and revoke China's designation as a priority foreign country.

China Has Taken Steps to Strengthen Its IPR Laws, but Enforcement of Laws Is Considered Poor

According to officials at USTR and the Departments of Commerce and State, overall China has fulfilled its obligations in amending the laws and regulations and acceding to the international treaties agreed to in order to implement the 1992 MOU. Specifically, China has amended its patent law, issued copyright regulations, joined international copyright conventions, and enacted protection for trade secrets. In the area of enforcement, however, U.S. government officials report that China has made minimal progress in establishing the legal and administrative framework that would provide effective procedures and remedies to address IPR infringement and to deter further infringement.

U.S. business representatives, especially the copyright industries, also reported that widespread infringement of their works occurs, with inadequate channels for recourse. An official of the National Copyright Administration of China also told us that while China has been successful in strengthening its copyright and patent laws, the government still has work to do in terms of enforcing the laws for both Chinese and foreign copyright owners.

Revision of Chinese Patent Law

China amended its patent law and enacted implementing regulations, effective on January 1, 1993. Officials at USTR and the U.S. Patent and Trademark Office (U.S. PTO) officials told us that these revisions satisfied its obligations in the MOU, with the possible exception of the amended provision for compulsory licenses.[8] The revised Chinese law expanded a patent holder's rights to include the right to prevent others from using or selling a product from a patented process and from importing a product obtained from a patented process. The amendment made product patent protection available for all chemical inventions, including pharmaceuticals and agricultural chemicals, for which only process patents had previously been granted. A process patent protects an invention involving a process or method of making or using a product or for a new use of a known process or method. In addition, China extended the term of patent protection to 20 years from 15 years.

---

[8] A compulsory license is an authorization by a government that permits someone, without the consent of the patent owner, to make, use, or sell a patented product or to use a patented process.

As provided for in the MOU, China also issued regulations for administrative protection for U.S. pharmaceuticals and agricultural chemicals. The MOU stipulated that pharmaceutical and agrichemical products must meet three requirements to be considered for administrative protection. Inventions that meet the requirements (1) must not have received exclusive protection in China before the 1993 amendment to the Chinese law; (2) must have obtained a U.S. patent between January 1, 1986, and January 1, 1993; and (3) must not have been marketed in China. The term of administrative protection agreed to was the remainder of the term of patent protection in the United States, not to exceed 7-1/2 years.

According to officials at USTR and U.S. PTO, the compulsory-licensing provisions may not fully comply with the MOU. For example, both USTR and U.S. PTO noted that uncertainty exists about how the Chinese government would interpret a provision for granting compulsory licenses where "the public interest" is at stake, or where "any extraordinary state of affairs" exists. An official of the Chinese Patent Office emphasized that a compulsory license has never been granted since the enactment of the Chinese Patent Law. A USTR official noted that the Chinese government attempted to follow the model for compulsory licensing used in the GATT 1994 negotiations on Trade-Related Aspects of Intellectual Property Rights, commonly referred to as "TRIPs"; however, he said that the Chinese may not have understood how to achieve compliance.

China's Implementation of the Copyright Provisions

In accordance with the MOU provisions related to copyrights, China acceded to the Berne Convention on October 15, 1992, and to the Geneva Phonograms Convention on April 30, 1993. China also issued regulations for the implementation of international copyright treaties, effective September 30, 1992. The implementing regulations govern protection for foreign works as provided for in the Berne Convention and the 1992 MOU and stipulate that international treaties and the MOU superseded these and other existing Chinese regulations.

Although it agreed to do so in the MOU, China has not completely amended its copyright law to make it fully consistent with the Berne Convention. China also has not agreed to a specific timetable by which it would comply with the convention. In addition, under the provisions of the MOU, China agreed to provide retroactive protection for U.S. existing works by March 17, 1992, the date when bilateral copyright relations were established. However, on April 20, 1993, China's National Copyright Administration issued "Document Number 28," which stated that continued sale of foreign existing works was permissible until October 15, 1993. As it stands, the burden of proof lies with the copyright owner to prove when an illegal reproduction of the work was made, which is very difficult to do, according to USTR. It remains unclear how the United States and China would clarify and resolve this issue of retroactive protection for copyrights.

Protection of Trade Secrets

China passed an Unfair Competition Law, which became effective on December 1, 1993, that contained provisions for protection of trade secrets, as agreed to in the MOU. The provision stipulated that trade secrets should not be acquired from the rightful owner by improper means or used by or disclosed to others in violation of an agreement or nondisclosure requirement. However, according to an official at USTR, while China has fulfilled its commitment to enact legislation protecting trade secrets, some concerns about the law remain. For example, the law requires prior knowledge of an illegal act, stating that "acquisition, use or disclosure of trade secrets by a third party who clearly knew or should have known the illegal acts . . . shall be deemed as an infringement of trade secrets." The USTR official said he believed that these concerns could be addressed in the implementing regulations.

Enforcement Provision

The enforcement provision of the MOU is limited to one sentence. Both countries agreed to "provide effective procedures and remedies to prevent or stop, internally and at their borders, infringement of intellectual property rights and to deter further infringement." China did not specifically commit itself in the MOU to enact new legislation on enforcement, such as authorizing the Chinese customs service to inspect and seize infringed goods at the borders. However, on September 15, 1994, the Chinese government issued an interim directive providing such authority. The authority given the Chinese customs service under the directive is inadequate, according to USTR, because (1) the IPR holder must prove infringement before the customs service can intervene and (2) the customs officials will not destroy goods determined to be infringing; rather, the seized goods will be returned to the importer or exporter. As a result, the procedure does not remove infringing goods from the market; it only blocks their import into or export from China. USTR noted, however, that permanent regulations were expected to be issued at the end of 1994 to become effective by April 1995. The provisions in these regulations are not yet known.

According to officials at USTR and the Departments of Commerce and State, China has implemented few measures that work toward satisfying the MOU's provision for enforcement of IPR. While the Chinese government has established judicial and administrative channels for seeking recourse for IPR infringement, U.S. government and business representatives said the enforcement system currently available is generally not adequate. Similarly, representatives of a major Chinese nongovernmental trade promotion agency said that China does not yet have a strong legal structure in place to enforce IPR. For example, they believed that China must enact additional laws and regulations that would grant broader enforcement powers to government bodies, including the Chinese customs service. Additionally, they said that the administrative fines available for IPR infringement need to be raised in order to have a deterrent effect. Finally, they noted that China needs more qualified lawyers and judges to handle IPR cases.

Due to the widespread nature of IPR infringement in China and after failing to see progress from the Chinese government on enforcement of IPR laws and regulations, USTR elevated China to the priority watch list from the watch list[6] on November 30, 1993. In 1994, the U.S. government began discussions with the Chinese on building an effective enforcement system, focusing on the following three areas: (1) making China's body of intellectual property law complete, including adopting provisions for criminal penalties for copyright infringement; (2) establishing an effective enforcement regime by creating an administrative enforcement system that is transparent, responsive, nondiscriminatory, and free from conflicts of interest and includes border controls; (3) providing broad education programs for the public and governmental bodies about the nature of intellectual property rights, the laws that protect against infringement of those rights, and the government's resolve to enforce those rights.

USTR Cites Inadequate Enforcement Efforts and Designates China a Priority Foreign Country in 1994

According to USTR, negotiations with the Chinese government to provide a stronger enforcement structure failed to produce adequate progress. On June 30, 1994, USTR designated China as a priority foreign country under the Special 301 provisions of the Trade Act of 1974, describing the Chinese government's enforcement of its laws and regulations as "sporadic at best and virtually nonexistent for copyrighted works." In addition, USTR cited that China maintains numerous hidden quotas and nontransparent regulations, effectively barring U.S. persons who rely on intellectual property protection from the Chinese market.

---

[6] USTR prepares a list of countries that it determines lack adequate and effective protection for intellectual property rights. The list is ranked, beginning with those countries that have the most egregious IPR problems and ending with those that still warrant monitoring: (1) priority foreign country, (2) priority watch list, and (3) watch list.

Following this designation, USTR sought negotiations with China to resolve these enforcement and market access issues. However, after a 6-month investigation, on December 31, 1994, USTR announced that it would take retaliatory action if China did not agree to address U.S. concerns regarding IPR enforcement. On this date, USTR also published a proposed list of Chinese products being considered for retaliation. USTR announced that it will make a final determination on February 4, 1995, on whether "China's IPR practices are unreasonable or burden U.S. commerce."

China's Current Judicial and Administrative System for Enforcing Intellectual Property Rights

Currently, an intellectual property owner may seek to enforce his or her rights in China through administrative and/or judicial channels. To seek recourse through the judicial system, a suit must be filed in civil or criminal court. Criminal penalties are available for "serious" cases of trademark, patent, and, since July 1994, copyright infringement. The Chinese government recently established a number of specialized legal chambers to handle intellectual property cases. These IPR chambers have been established within the People's Courts in Beijing, Shanghai, Shenzhen, Guangzhou, Hainan, and Fujian.

In seeking administrative remedies, an intellectual property owner must petition the Chinese administrative body responsible for the particular type of intellectual property right to investigate the alleged infringement. The National Copyright Administration administers copyrights; the State Administration for Industry and Commerce is responsible for trademarks; and the Chinese Patent Office oversees patent cases. Enforcement procedures differ for each type of intellectual property right. For example, a trademark owner who seeks administrative redress may petition the Trademark Office in Beijing and the local/provincial offices of the State Administration for Industry and Commerce, where the infringement takes place. A foreign copyright owner, however, must first file his case with the National Copyright Administration of China (NCAC), regardless of where the infringing act occurred. NCAC can take further action on a claim in Beijing if it considers the alleged infringement to be "serious and damages the public interest." NCAC can handle the case on its own or request that a local government authority in charge of copyright protection handle it. (See further discussion of copyright difficulties below.) USTR officials told us that both the judicial and administrative processes are still relatively opaque, and to their knowledge, the acceptance of cases is not based on published criteria.

Absence of a Clear Chinese Government Structure for IPR Enforcement Contributes to Difficulties for U.S. Firms

U.S. government officials and representatives of U.S. companies and their industry associations discussed various difficulties in protecting U.S. intellectual property rights in China. The types of difficulties they described related mainly to the absence of a viable enforcement structure, stemming from an inconsistent application of laws and regulations in China, fragmented and unclear responsibilities among Chinese ministries, a lack of resources dedicated to IPR enforcement, and a pervasive lack of transparency.

Chinese Laws and Regulations Appear to Be Applied Inconsistently

A number of U.S. company representatives reported that IPR laws and regulations are not uniformly applied among the central government and the provincial and local governments. They attributed this inconsistency to several factors, including government decentralization; differing attitudes toward IPR; and varying levels of training about intellectual property rights among the central, provincial, and local governments. Another contributing factor is that the laws, regulations, and procedures at the provincial and local government levels are particularly unclear, according to U.S. industry and U.S. government representatives. A Chinese official from MOFTEC also commented about the potential for confusion at the different levels of government. He explained that provincial Administrations for Industry and Commerce (AIC), the governmental bodies that review and decide trademark infringement issues, fall under the jurisdiction of the national State Administration for Industry and Commerce (SAIC). However, provincial AICs have the authority to enforce local trademark regulations, which may be different from those of the central government or another province's regulations. Nonetheless, a company that is dissatisfied with the findings of a provincial AIC may seek a rehearing by a superior AIC agency.

Enforcement Responsibilities Among Chinese Agencies Are Not Clearly Defined, and Potential Conflict of Interest Exists

U.S. government and industry representatives also said that some Chinese ministries and agencies have unclear lines of authority, fragmented responsibilities, and potential conflicts of interest in enforcing IPR. For example, according to USTR officials, although Chinese copyright law designates NCAC as the agency responsible for copyright enforcement, they said in practice it is not clear which government agency would investigate and decide cases for motion pictures, sound recordings, and computer software. For copyright enforcement, the Press and Publications Administration, the Ministry of Radio and Television, and the Ministry of Culture have various responsibilities, depending on the industry involved. Moreover, a MOFTEC official acknowledged that there is no published guidance that explains the steps that a foreign company should take to seek remedy for infringement. He also added that the process can be confusing since it may involve many different ministries.

Finally, USTR officials expressed concern that a potential conflict of interest exists because these ministries, along with the Press and Publication Administration, have the sole authority to decide which foreign sound recordings will be imported into China. The Ministry of Radio and Television, for example, has 67 audiovisual companies, and the Ministry of Culture has 20 companies under its purview, and these companies may be subject to allegations of piracy, according to USTR.

China Has Committed Limited Resources for Enforcement

The Chinese government has committed very limited resources for the enforcement of IPR. According to U.S. and Chinese government officials, the agency with primary responsibility for copyright enforcement, NCAC, has a staff of three assigned to nationwide monitoring. Some US&FCS officers posted in China said that in addition to having inadequate resources for copyright enforcement activities, Chinese agencies, such as NCAC, are reluctant to take a lead role in enforcing rights. Rather, NCAC has encouraged U.S. companies to file civil suits against infringers to delay actions required of NCAC and to include the participation of other organizations, such as the Ministry of Justice and the Public Security Bureaus, which will assume the burden of making a ruling.

U.S. Industries Report Difficulty With IPR Enforcement and China's Application of Administrative Protection Regulations

We administered structured interviews to representatives of 33 U.S.-based companies to obtain information about their experiences in protecting and/or enforcing intellectual property rights in China. Our survey covered companies' experiences with patents, trademarks, copyrights, and trade secrets. Since the process to obtain and enforce IPR protection for these different types of protection varies significantly, it was difficult to aggregate and provide conclusive results from the survey.

Twenty-seven of the 33 companies had sought IPR protection in China. The majority of these companies reported that they did not have serious problems in obtaining IPR protection, that is, in receiving a patent or registering their trademarks. More than half of the companies reported that they did not yet have experience in enforcing their intellectual property rights in China. However, of the 13 companies that had had experience in enforcing their rights, only 1 company reported a positive experience, while the remainder reported various negative experiences. Of the companies that had taken action to enforce their IPR, several companies said that they believed that the Chinese government authorities administering their cases had conflicts of interest, including one case in which the infringing party's parent entity was a state ministry.

In addition to the structured interviews, we obtained information about companies' experiences with IPR protection in China from representatives of several industry associations. In some cases, the U.S. companies that we contacted referred us to their industry association for discussion of industrywide views and concerns.

U.S. Copyright Owners Report Unabating Infringement and Market Access Barriers

In the area of copyright protection, enforcement has been described as "poor to nonexistent" by U.S. industry and government representatives. The copyright industry's trade association, the International Intellectual Property Alliance (IIPA), made China its top priority for 1994 under Special 301, recommending to USTR in February 1994 that China be identified a priority foreign country. According to IIPA, the copyright industry faces nearly 100-percent levels of infringement in China. Over the years, USTR and the U.S. copyright industries have been urging China to establish criminal penalties for copyright infringement. On July 5, 1994, China amended its criminal code to provide sanctions for criminal copyright infringement, allowing a maximum sentence of 7 years in prison plus a fine.

In addition to the adverse effects that copyright infringement poses, the U.S. copyright industries have also encountered various market access barriers that impede their ability to conduct business in China. According to IIPA, these barriers include a lack of transparency in the rules and regulations for establishment of operations and investment requirements and for rules that govern the production and distribution of copyrighted materials by foreign citizens and companies in China. IIPA has also noted that foreign ownership in a joint venture or enterprise appears to be effectively banned for the sound recording, motion picture, and book-publishing industries.

Available Remedies for Copyright Infringement

As previously discussed, copyright owners have two channels to seek redress for infringement of their works: (1) NCAC, through which administrative fines are possible; and (2) the courts, either through a criminal suit or a civil suit. According to IIPA, however, the administrative channel is inadequate. NCAC does not have the authority or the staff to catch offenders, for example, by running raids of manufacturing facilities, and cannot force infringers to pay their fines without a separate court order.

Because criminal penalties have been available for copyright infringement only since July 1994, it is too early to predict their effectiveness. According to USTR, an infringement case can be introduced in the criminal court system in three ways: (1) the copyright holder can bring his case to a special prosecutor assigned to handle these cases; (2) NCAC can refer the case to the special prosecutor; or (3) the rightholder can bring a civil case, and if the presiding judge considers it serious enough, he or she can refer it to the special prosecutor.

Compact Disk Factories in South China Reportedly Produce Millions of Illegal Copies of U.S. Copyrighted Works

In late 1993, the U.S. copyright industry and U.S. government reported that 26 compact disk (CD) factories were either currently operating in southern China, illegally reproducing U.S. copyrighted works, or were awaiting licensing by the Chinese government. The estimated total capacity of these factories by the end of 1993 was about 75 million CDs, while the demand for legitimate CDs in the Chinese domestic market is estimated to be about 6 million. Counterfeit CDs are being exported to Southeast Asia and other foreign markets in volumes, according to USTR. The sound recording industry estimates that if all these plants were to operate at full capacity, the value of these infringed CDs would be about $500 million on the world market.

The recording industry has been active in pursuing innovative ways to monitor enforcement of copyrights in China. In August 1993, the record industry signed a memorandum of understanding with the Guangdong Province government. Under the agreement, the provincial government agreed to set up a special agency, "The Social Culture Task Force." This task force, with the cooperation of five cities, is expected to enforce copyright laws by monitoring the activities of the growing number of CD plants and conducting raids on the infringing plants. The record industry would contribute funding to the task force and would also provide training for its personnel. According to a U.S. representative of the industry, the task force has not yet come into force because the local Chinese government has failed to promulgate the law that was to serve as the basis of task force actions.

U.S. Software Industry Filed First Cases in Beijing IPR Tribunal

The Business Software Alliance (BSA), which represents U.S. software companies, reported that in 1993 the U.S. software industry had total losses of $322 million in China. The association also estimated that 94 percent of all packaged software used in China was illegally obtained, according to BSA research that compared the total number of hardware units sold with the total number of software packages sold.

In response to the widespread infringement of its software, in March 1994 BSA filed its first complaints with the Intellectual Property Tribunal of the Beijing Intermediate People's Court. BSA named five Chinese retail outlets suspected of selling unauthorized software, including one of China's largest distributors of computer software. On June 29, 1994, accompanied by BSA representatives, officials of the tribunal raided the five retail outlets named in the complaint. The officials seized more than 300 software programs, CD-record only memory (ROM) disks, and 6 computers suspected of containing illegal software. BSA said that the tribunal officials also ordered the retailers to produce their financial accounts and other records. According to BSA, the tribunal officials accepted the cases of five U.S. software companies based on the evidence collected in the raids.

Although BSA said it considered the raids a "step forward in the industry fight against software piracy," the alliance supported USTR's decision to designate China as a priority foreign country, "because of the unreasonably long, expensive, and muddled legal process leading up to the raids." According to BSA, its foremost concern is that the Chinese government has yet to demonstrate a long-term interest in reducing software piracy in China.

U.S. Trademark Owners Also Said Enforcing Rights in China Is Challenging

Although trademark issues were not addressed by specific provisions of the 1992 MOU, trademark owners' interests were represented in the enforcement provision of the agreement, according to a representative of U.S. PTO. The International Trademark Association, the industry association representing trademark interests, wrote in its 1994 Special 301 submission to USTR that revisions to the Chinese trademark law and implementing rules, effective in July 1993, failed to address a number of issues. The major problems the association cited included the absence of judicial appeals of administrative decisions, the inability to meet with Trademark Office examiners, and the retention of the "official agent" system that requires foreign trademark owners to hire agencies designated by the Chinese government to process trademark applications. In addition, the International Trademark Association said that "most procedures remain uncodified in published rules and are inconsistent with international practice."

While China has had an enforcement system for trademarks, including criminal penalties, since 1983, many U.S. companies we surveyed reported infringement of their trademarks. One U.S. manufacturer of athletic footwear told us that counterfeiting of its product is rampant in China. A representative from the company told us that it has received good support from the local Public Security Bureaus[7] and the local AICs, which are responsible for reviewing and investigating trademark infringement cases. In cases where the company had enlisted the assistance of the Public Security Bureau and AIC, these agencies have searched manufacturing facilities and also confiscated counterfeit goods. The problem, according to the company official, is that the Public Security Bureau and AIC do not have the authority to destroy the manufacturing equipment used to produce the counterfeit goods. Therefore, the Chinese agencies could not guarantee that the infringing activity would cease after the search and confiscation of goods.

U.S. Companies Experience Difficulties in Obtaining Administrative Protection for Patented Products

U.S. pharmaceutical and chemical companies we interviewed reported a number of problems in obtaining administrative protection for their inventions. These problems included issues related to the transparency of requirements and the Chinese government's interpretation of the regulations and the MOU.

---

[7] According to the Department of State, the Ministry of Public Security supervises local Public Security Bureaus throughout China. These offices frequently have wider responsibilities than any single law enforcement agency in the United States. Public Security Bureau functions at the local level, for example, include law enforcement, criminal investigation, narcotics, some domestic intelligence functions, and embassy security.

The Case of the First U.S. Application for Pipeline Protection

In 1993, the American Cyanamid Company applied for administrative protection in China for an herbicide—the first known case of a U.S. patent holder to seek this protection. The application was submitted to China's Ministry of Chemical Industry, which is responsible for reviewing and approving administrative protection applications for agricultural chemicals. According to a company representative, American Cyanamid's herbicide comes in two forms: (1) a 5-percent formulated, ready-to-use solution; and (2) an active "technical product" (the pure form). The company representative said that American Cyanamid had previously marketed the 5-percent solution in China but not the technical product, which it would not have attempted to sell since the product had no protection in China. American Cyanamid applied for administrative protection only for the technical product. The company believed the technical product met all the requirements, including the stipulations that the product had not been marketed in China before the filing date of the application and had been granted a separate U.S. patent. Ultimately, however, the Ministry of Chemical Industry denied the application on the grounds that in its view the product had previously been marketed in China.

According to Ministry of Chemical Industry officials, the Ministry is responsible for overseeing development of the domestic chemicals industry in addition to its purview over applications for administrative protection for agrichemicals. This dual responsibility is problematic, according to American Cyanamid. The company believes that two Chinese chemical institutes, with affiliation to the Ministry of Chemical Industry, were engaged in copying the company's technical and, thus, the 5-percent solution.

U.S. Companies Report Other Difficulties in Obtaining Administrative Protection

Of the six chemical and/or pharmaceutical companies that we interviewed, two other companies said that they had experienced difficulty in obtaining administrative protection related to the Chinese government's interpretation of the regulations and some nontransparent requirements. One U.S. pharmaceutical company reported difficulty in obtaining administrative protection as an "exclusive licensee"[3] of an invention. The company applied for administrative protection for a vaccine product with China's State Pharmaceutical Administration, which is responsible for reviewing applications for patents and administrative protection for pharmaceuticals. China's implementing regulations for administrative protection state that "[t]he right of applying for administrative protection of pharmaceuticals belongs to the owner of the exclusive right of the pharmaceutical." The U.S. company had received an exclusive license from the American research institution that originally had developed the vaccine.[9] The State Pharmaceutical Administration, however, denied the vaccine administrative protection on the grounds that the U.S. company was not the original U.S. patent holder. The U.S. company representative felt that the State Pharmaceutical Administration's decision was based on an overly narrow interpretation of both the regulations and China's commitment to the provisions of the MOU.

---

[3] A patentee can use the patent himself or herself or allow others to do so, for example, by licensing its use. An exclusive licensee is someone who has been promised by the patentee that no other person will be granted use of the patented good.

According to another U.S. pharmaceutical company, some requirements for administrative protection currently imposed by the State Pharmaceutical Administration do not adhere to either the MOU or the administrative protection regulations. For example, the company reported that Chinese officials are now taking the position that an applicant for administrative protection must both manufacture and sell the product for which the protection is sought in its home country. The company representative said that the "manufacture" requirement is not consistent with either the MOU or the implementing regulations, both of which require an applicant to submit only the "approval for manufacturing or sales of the product" from its home country. According to the company representative, the State Pharmaceutical Administration has rejected at least one application on the grounds that it did not meet the "manufacture" requirement.

In the company's view, this requirement is a major concern since it is a multinational company. Only a limited number of patents that were issued in the narrowly proscribed time period stipulated by the MOU and the implementing regulations can be considered for administrative protection. In the majority of cases, the manufacture requirement would force an applicant to transfer manufacture from its original manufacturing site to the country where the eligible patent exists. As a result, this requirement would seriously affect the chances of foreign pharmaceutical companies to obtain administrative protection for their eligible products in China.

The United States Has Options for Achieving Progress in China

The U.S. government can continue to encourage and press for strengthened protection of U.S. intellectual property in China in several ways. In pursuing bilateral engagement with China, U.S. government and industry representatives suggested that the United States has a role in providing technical assistance and training. In addition, the U.S. government and business community could utilize U.S. trade law, such as Special 301, in addressing problems with Chinese protection of IPR. Finally, the United States could pursue a multilateral approach to effect change in China's IPR regime through organizations, such as WIPO and WTO.

---

[9] Research laboratories or universities commonly negotiate exclusive licensing arrangements with companies, which invest in further development and marketing of such products.

Offering China U.S. Technical Assistance and Training

The U.S. government and business community have an opportunity to establish long-term communication and cooperation with the Chinese government as it continues to develop its intellectual property regime. Officials from the Department of State and the US&FCS pointed out that the United States could play a key role in developing China's enforcement system by offering assistance through technical training and education programs. Similarly, officials from MOFTEC said that the United States could provide more training in IPR administration and development, noting that other countries, such as Germany, have offered more extensive training. The MOFTEC officials characterized the United States as adept in "knowing how to use the big stick" but not as willing to offer positive measures for improvement.

U.S. government officials have identified areas where the United States, in cooperation with U.S. industry, could assist China in further developing its intellectual property regime, particularly its enforcement structure. These areas include (1) judicial training—although China has established several IPR courts, the Chinese judges need training to develop an expertise in intellectual property law; (2) law enforcement training—to provide active and competent enforcement of IPR laws, the local AICs, prosecutors, and customs and patent agents need to develop an understanding of IPR as well as specific enforcement skills; (3) administrative practices and development of laws—in assisting in this area, the United States could offer its input into issues that have arisen about China's adjudication of IPR cases and its further development of implementing regulations and new legislation; and (4) educational programs—U.S. industry and the federal government have sponsored a number of successful IPR seminars in China; however, continued efforts could help reinforce the message and reach a wider audience.

Using Special 301 to Address Inadequacies in IPR Protection

As discussed earlier, USTR has used the Special 301 provision of U.S. trade law to investigate and promote change in China's IPR practices. U.S. companies and industry associations could also petition USTR to investigate China's IPR system. As previously mentioned, on June 30, 1994, USTR identified China as a priority foreign country for its failure to enforce its IPR laws and regulations effectively. This identification required USTR to decide within 30 days whether to initiate an investigation, which began immediately in this case. If negotiations are not successfully resolved, sanctions could be imposed on selected Chinese exports to the United States.

Engaging Multilateral Cooperation to Influence China's IPR Regime

The United States has the opportunity to influence further change in China's system for protecting and enforcing IPR through multilateral organizations, such as WIPO. In the past, China has been receptive to WIPO delegations and invitations to participate in WIPO-sponsored IPR seminars. In addition, some representatives of the U.S. government and business commented that they have observed positive changes in China as it aims to align its system more closely to the GATT 1994 TRIPs model and eventually accede to WTO.

U.S. Trade Law and Procedures to Combat Foreign Trade Barriers

- The U.S. government has established trade laws to promote the opening of foreign markets and the protection of U.S. intellectual property rights abroad. Section 301 of the U.S. Trade Act of 1974, as amended, and Special 301, 19 U.S.C. 2242, which was added in the Omnibus Trade and Competitiveness Act of 1988, provide the legal basis for the U.S. government to enforce U.S. rights under bilateral and multilateral agreements and to seek to eliminate acts, policies, or practices of foreign governments that burden or restrict U.S. commerce.

Section 301

Legislative Background

Section 301 of the U.S. Trade Act of 1974, as amended, gives the President broad discretion to enforce U.S. trade rights granted by trade agreements and to attempt to eliminate acts, policies, or practices of a foreign government that violate a trade agreement or are unjustifiable, discriminatory, or unreasonable and burden or restrict U.S. commerce.[1] Section 301 provides a domestic procedure under which affected enterprises or individuals may petition USTR to initiate actions to enforce U.S. rights under bilateral and multilateral trade agreements. USTR also may initiate Section 301 investigations at its own discretion.

Procedures

The Section 301 action process usually begins with the submission of a petition by a domestic industry alleging a violation of a trade agreement or an "unjustifiable," "unreasonable," or "discriminatory" action that burdens or restricts U.S. commerce. Once the petition is filed, USTR is required to review it and determine within 45 days whether to initiate an investigation of the alleged trade complaint. Once USTR elects to accept a petition, the subsequent investigation is to be based on overall U.S. policy and national concerns rather than just the petitioner's interests.[2] USTR is to publish a notice in the Federal Register as soon as the investigation is formally initiated. The notice is to request public comment and may contain an announcement for a public hearing. If requested by the petitioner, the hearing must be held within 30 days of a case's initiation.

---

[1] According to USTR, it has initiated [illegible] investigations pursuant to Section 301 since 1974.

[2] If USTR declines to initiate an investigation, the petitioner must be informed of the specific reasons behind the decision, which is published in the Federal Register.

If the case involves a violation of an international agreement that has a dispute settlement mechanism, such as the GATT 1994 code, USTR must invoke such dispute settlement provisions. Under GATT 1994, the overall dispute settlement process has five main stages: (1) consultation and conciliation, (2) establishment of panels, (3) deliberation of panels, (4) consideration of panel findings and recommendations, and (5) follow-up and implementation.

With certain exceptions,[3] if the case does not involve a violation of an international agreement that has a dispute settlement mechanism, such as the GATT code, the dispute must be resolved through bilateral consultations. Depending on the type of practices alleged, USTR must submit its recommendations to the President within 6 to 18 months. Each aspect of the investigation is subject to an interagency review process overseen by the Section 301 Committee, whose responsibility includes defining issues, marshaling evidence, pursuing international consultations and dispute settlement, and making formal recommendations to the President.

If the determination at the end of the investigation is affirmative and involves a trade agreement or an alleged unjustifiable practice that burdens or restricts U.S. commerce, USTR must take action. If the determination is affirmative but involves an unreasonable or discriminatory practice that burdens or restricts U.S. commerce, USTR may decide which actions, if any, are appropriate. USTR may delay implementation of any action for up to 30 days after making a decision and for an additional 180 days in certain circumstances.

Possible actions USTR may take against the country under investigation include (1) suspension of trade agreement concessions, (2) imposition of duties or other import restrictions, (3) imposition of fees or restrictions concerning services, (4) entry into agreements with the subject country to eliminate the offending practice or to provide compensatory benefits for the United States, and (5) restriction of service sector access authorizations. The action taken should be commensurate with the damage caused to the United States by the practices investigated. Action may be taken against any goods or economic sectors, without regard to whether the goods or economic sectors were the subject of the investigation. However, USTR must give preference to the imposition of duties over taking other types of action.

---

[3] Exceptions include cases in which the foreign country is taking satisfactory measures to grant the rights of the United States under the trade agreement or cases in which sanctions would have an adverse economic impact on the United States substantially out of proportion to the benefits of the sanctions, and cases in which sanctions would cause serious harm to the national security of the United States.

In accordance with Section 306 of the 1974 Trade Act, USTR is to monitor the implementation of any measure or agreement that results from a Section 301 investigation. If a foreign government is not satisfactorily implementing an action or agreement, USTR may determine what further action should be taken. One option could be the reopening of a Section 301 investigation.

Special 301

Legislative History

As an outgrowth of the Section 301 process, certain legal procedures were created to combat the lack of intellectual property rights protection in foreign countries. For example, the Trade and Tariff Act of 1984 (P.L. 98-573, 1984) contained amendments to the Trade Act of 1974 that emphasized congressional intent for Section 301 to be used in dealing with a variety of "new" trade issues, such as investment barriers and inadequate protection of IPR. Subsequently, the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418, 1988) amended the Trade Act of 1974 to include what has been commonly called the "Special 301" process.[4] Under this process, USTR must identify on an annual basis foreign countries that lack adequate and effective protection of IPR or that deny fair and equitable market access to U.S. persons and firms relying on IPR protection. From this group, USTR must also identify as "priority foreign countries" those countries that "have the most onerous or egregious acts, policies, or practices" and whose acts, policies, or practices have the "greatest adverse impact (actual or potential) on the relevant U.S. products." Countries named priority foreign countries must not be negotiating in good faith or making progress in negotiations to provide adequate and effective protection. Under the Special 301 provisions, USTR has discretion in deciding whether to retaliate against countries identified as having inadequate protection of intellectual property rights.

---

[4] 19 U.S.C. 2242.

Procedures

USTR decides whether to identify countries each year within 30 days after issuance of the National Trade Estimate report.[9] USTR, however, may identify a trading partner as a priority foreign country or remove such identification whenever warranted. Section 302(b) of the amended Trade Act of 1974 directs USTR to initiate a Section 301 investigation within 30 days after identification of a priority foreign country "with respect to any act, policy, or practice of that country that was the basis of an identification." However, USTR is not required to initiate an investigation if it determines that such an investigation would be detrimental to U.S. economic interests or if the country is already the subject of another Section 301 investigation. After a priority foreign country investigation is initiated, the procedural and other requirements of Section 301 authority generally apply, except that the investigation and resulting determinations must be concluded on an accelerated time frame. USTR is required to determine within 6 months if there are unfair trade practices and if any retaliatory measures will be taken. Investigations may be extended for up to an additional 3 months if complex or complicated issues are involved, if substantial progress is being made, or if effective measures are being undertaken.

As a means of increasing the effectiveness of the Special 301 provision, USTR has divided into two categories—the "priority watch list" and the "watch list"—those countries perceived to deny adequate and effective intellectual property protection or market access, but whose problems are not as severe as priority foreign countries. Countries placed on the priority watch list are those that USTR considers to have made less progress in strengthening protection of intellectual property than those on the watch list, or whose practices cause the greater economic harm to U.S. interests.

---

[9] The National Trade Estimate Report on Foreign Trade Barriers (NTE) is an inventory of the most important foreign barriers affecting U.S. exports of goods and services, foreign direct investment by U.S. persons, and protection of intellectual property rights. USTR is required by statute to submit this report annually to the President, the Senate Finance Committee, and appropriate committees in the House of Representatives.

BEST COPY AVAILABLE

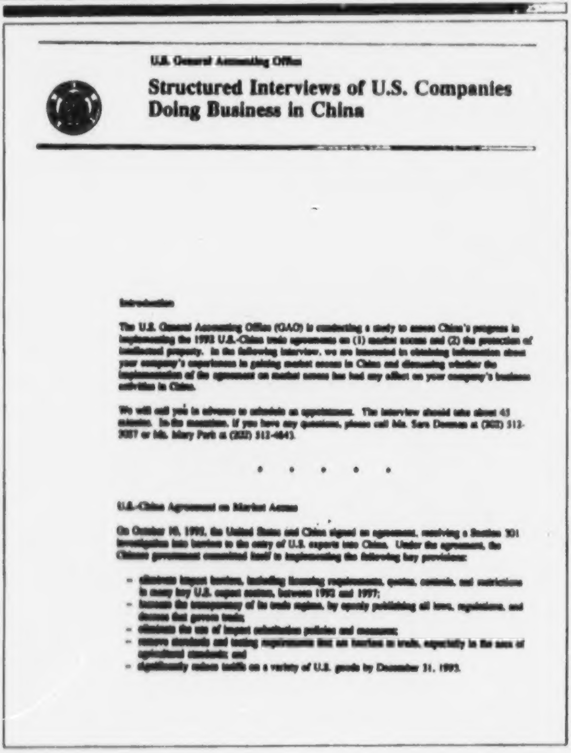
Appendix IV
U.S. Companies Interviewed

American Cyanamid Company
AT&T
Campbell Soup Company
Cambrex/Nepera Hong Kong Ltd.
Caterpillar China Limited
Chrysler Corporation
Continental Grain Company
Cooper Energy Services International
Digital Equipment Corporation
Dow Chemical Pacific Limited
Hewlett-Packard Company
Honeywell China Inc.
Hughes Aircraft Company
International Business Machines Corp.
Johnson & Johnson
Joseph E. Seagram & Sons, Inc.
KFC International, Asia/Pacific Region
Lotus Development Corporation
Med-Tech International
Merck & Co., Inc.
Monsanto Company
Motorola, Inc.
Sun Microsystems, Inc.
Syntex Corporation
Texas Instruments Incorporated
The Procter & Gamble Company
The Walt Disney Company
Unisys (China) Company, Ltd.
U.S. China Investment Corp.

Note: This appendix includes only those companies that agreed to be listed.

Appendix V

Structured Interviews of U.S. Companies Doing Business in China



U.S. General Accounting Office

Structured Interviews of U.S. Companies Doing Business in China

Introduction

The U.S. General Accounting Office (GAO) is conducting a study to assess China's progress in implementing the 1992 U.S.-China trade agreements on (1) market access and (2) the protection of intellectual property. In the following interview, we are interested in obtaining information about your company's experiences in gaining market access in China and discussing whether the implementation of the agreement on market access has had any effect on your company's business activities in China.

We will call you in advance to schedule an appointment. The interview should take about 45 minutes. In the meantime, if you have any questions, please call Ms. Sara Denman at (202) 512-3057 or Ms. Mary Park at (202) 512-4843.

• • • • •

U.S.-China Agreement on Market Access

On October 10, 1992, the United States and China signed an agreement, resolving a Section 301 investigation into barriers to the entry of U.S. exports into China. Under the agreement, the Chinese government committed itself to implementing the following key provisions:

- eliminate import barriers, including licensing requirements, quotas, controls, and restrictions in many key U.S. export sectors, between 1992 and 1997;
- increase the transparency of its trade regime, by openly publishing all laws, regulations, and decrees that govern trade;
- eliminate the use of import substitution policies and measures;
- remove standards and testing requirements that are barriers to trade, especially in the area of agricultural standards; and
- significantly reduce tariffs on a variety of U.S. goods by December 31, 1993.

BEST COPY AVAILABLE

I. Company Experience in China

1. What are the primary lines of business in which your company is involved?

2. What products does your company currently export to China?

3. What percent (to the nearest 10%) of annual sales do exports to China represent?

4. What kinds of business activities does your company conduct in China?

5. Does your company operate facilities in China?

6. In your opinion, how would you rate your company's overall experience in China? (Check one.)

   1. ☐ Very successful
   2. ☐ Somewhat successful
   3. ☐ Neither successful nor unsuccessful
   4. ☐ Somewhat unsuccessful
   5. ☐ Very unsuccessful

7. To what do you attribute your company's success or lack of success in China?

II. Market Access in China

8. Are you familiar with the 1992 U.S.-China agreement on market access?

9. What has been your company's experience with each of the following potential market barriers in China?

   1. Transparency (e.g., disclosure of trade laws, regulations, and policies)
   2. Quantitative restrictions (e.g., quotas and import licensing requirements)
   3. Product standards
   4. Import substitution
   5. Tariffs

10. Since October 1992, has there been any change in your company's experience with these barriers?

11. If yes, please describe the specific ways that your company's experience has changed.

12. Can your company measure any change in the degree of success it has had in exporting to China since October 1992?

13. If yes, please describe this change.

14. To what extent would you attribute this change to the elimination of trade barriers provided for in the agreement on market access? (Check one.)

1. ☐ Very great extent
2. ☐ Great extent
3. ☐ Moderate extent
4. ☐ Some extent
5. ☐ Little or no extent

III. Other Factors that Affect Company's Experience in China

15. Have other factors affected your company's experience in gaining market access in China?

16. If yes, please describe.

17. If your company experienced any specific difficulty related to market access, did you approach any Chinese government ministries or authorities for assistance or guidance?

18. If yes, how was this difficulty resolved?

IV. U.S. Government Efforts

19. Has your company participated in any U.S. government-sponsored seminars or conferences related to market access in China?

20. Does the U.S. government provide services or other types of assistance that your company has used in entering the Chinese market?

21. If yes, please describe.

22. Has your company approached the U.S. government for assistance with any of the specific concerns discussed above?

23. If yes, what was the U.S. government response?

U.S. General Accounting Office

Structured Interviews of U.S. Companies Doing Business in China

Introduction

The U.S. General Accounting Office (GAO) is conducting a study to assess China's progress in implementing the 1992 U.S.-China trade agreements on (1) the protection of intellectual property and (2) market access. In the following interview, we are interested in obtaining information about your company's experiences obtaining and enforcing intellectual property rights (IPR) in China and determining whether the implementation of the agreement on IPR has had any effect on your company's business activities in China.

We will call you in advance to schedule an appointment. The interview should take about 45 minutes. In the meantime, if you have any questions, please call Ms. Sara [illegible] at (202) 512-[illegible] or Ms. Mary Park at (202) 512-[illegible].

• • • • •

U.S.-China Agreement on Intellectual Property Rights Protection

On January 16, 1992, the United States and China signed an agreement that committed China to providing improved protection for intellectual property rights in China. This agreement resolved a Special 301 investigation into inadequate IPR protection in China. Among the most important terms of the agreement, China pledged to:

- join the Berne Copyright Convention and Geneva Phonograms Convention;
- protect computer programs as literary works under the Berne Convention;
- provide full product patent protection for pharmaceutical and agricultural chemical products; and
- adopt legislation to protect trade secrets from unauthorized disclosure or use.

BEST COPY AVAILABLE

I. Intellectual Property Rights in China

1. Are you familiar with the 1992 U.S.-China agreement on IPR?

2. Which forms of IPR are relevant for your company?

    1. Patents
    2. Copyrights
    3. Trademarks
    4. Trade secrets

3. Has your company sought IPR protection in China?

4. If yes, for what forms of IPR?

5. What has been your company's experience in obtaining protection for its intellectual property?

6. What has been your company's experience in enforcing its intellectual property rights?

7. Since January 1992, has there been any change in your company's experience protecting its intellectual property?

8. If yes, please describe specific ways that your company's experience has changed.

9. To what extent would you attribute this change to stronger protection of intellectual property rights provided for in the agreement? (Check one.)

    1. ☐ Very great extent
    2. ☐ Great extent
    3. ☐ Moderate extent
    4. ☐ Some extent
    5. ☐ Little or no extent

II. Other Factors that Affect Company's Experience in China

10. Have other factors affected your company's experience in obtaining adequate and effective IPR protection in China?

11. If yes, please describe.

12. If your company experienced any specific difficulty related to IPR, did you approach any Chinese government ministries or authorities for assistance or guidance?

13. If yes, how was this difficulty resolved?

BEST COPY AVAILABLE

III. U.S. Government Efforts

14. Has your company participated in any U.S. government-sponsored seminars or conferences related to IPR protection in China?

15. Has your company approached the U.S. government for assistance with any of the specific concerns discussed above?

16. If yes, what was the U.S. government response?

Objectives, Scope, and Methodology

In light of China's efforts to liberalize its economy and join the international trading system, Senator Hank Brown asked us to provide information on (1) China's compliance with the provisions of the market access MOU and related progress on meeting the eligibility requirements to join GATT and (2) China's implementation of the MOU on the protection of intellectual property rights. In addition, as requested, we provided information on the legal procedures involved in addressing U.S. concerns about foreign market access and intellectual property rights protection under Section 301 of the 1974 U.S. Trade Act, as amended.

To assess China's compliance with the specific provisions of the market access and intellectual property rights MOUs, we obtained information primarily from three broad sources: (1) U.S. government agencies involved in negotiating and monitoring the implementation of the MOUs, (2) Chinese government officials responsible for trade and protection of intellectual property rights, and (3) U.S. companies or business associations with interest in China's import regime or intellectual property protection system.

As the U.S. government leader in negotiating and monitoring the market access and intellectual property rights agreements, USTR was our primary source of information on the MOUs, as well as on negotiations on China's accession to the General Agreement on Tariffs and Trade. USTR provided us with materials documenting China's progress in implementing the provisions of the MOUs and with updates on USTR actions to promote U.S. interests. We supplemented this information with perspectives from other U.S. government agencies, including the Departments of Agriculture, Commerce, and State and the U.S. Customs Service.

We visited China and Hong Kong in March 1994, where we met with U.S. and Chinese government officials, as well as private sector representatives. In Beijing, Guangzhou, and Hong Kong, we met with U.S. embassy and consulate officials to obtain their perspectives on the business and trade environment in China and to discuss their views on China's implementation of the specific provisions of the MOUs. These discussions included meetings with officials in the U.S. economics, commercial, and political sections, as well as with agricultural attachés and U.S. Customs Service officers.

In Beijing, we met with Chinese government officials in positions of responsibility for foreign trade and intellectual property rights protection to obtain their views on China's implementation of the MOUs. Our meetings included Chinese officials from MOFTEC; the SSTC; the Customs Administration; the State Administration for Industry and Commerce; the National Copyright Administration; and the ministries overseeing key importing industries, such as chemicals, electronics, and radio and film.

To obtain information on U.S. companies' experiences in gaining access to the Chinese market and in protecting and enforcing their intellectual property rights in China, we conducted structured interviews with representatives of 41 U.S.-based companies, including 17 companies we met with in China and/or Hong Kong. This group of companies was selected judgmentally to reflect a variety of industry sectors, including the pharmaceutical, computer, automotive, and consumer product industries. However, it was not necessarily representative of all U.S. companies doing business in China.

Not all of the company representatives we interviewed were able to fully answer our questions on both market access and intellectual property rights issues. Thus, although we interviewed a total of 41 companies, we tabulated responses from 33 companies on market access issues and 30 companies on intellectual property rights issues (these groups were not identical). It should also be noted that only 29 of the companies we contacted agreed to have their company names listed in appendix IV.

In addition to our structured interviews with U.S. companies, we obtained information from business associations with interest in market access and intellectual property protection issues. These associations included the American Association of Exporters and Importers, the American Chamber of Commerce in Beijing and Hong Kong, the American Soybean Association, BSA, the Electronics Industry Association, IIPA, the International Trademark Association, the National Association of Manufacturers, the Pharmaceutical Manufacturers Association, the U.S.-China Business Council, the U.S. Feed Grains Council, and the U.S. Wheat Associates.

To outline the Section 301 and Special 301 processes, we reviewed U.S. trade laws as well as USTR documents and previous GAO reports. We also consulted with USTR's Office of General Counsel, who verified the information. The information presented in this report on Chinese law does not reflect GAO's independent analysis but is based on secondary sources and interviews.

We performed our review from October 1993 to November 1994 in accordance with generally accepted government auditing standards.

92-600 S
July 30, 1992

CRS Report for Congress

CHINA'S TRANSITION TO THE MARKET

John P. Hardt
Associate Director and Senior Specialist in Soviet Economics

SUMMARY

A recent trip to Beijing led to observations on the prospects and implementation of further China reforms.

- Agriculture, rural industry and a number of sectors are now effectively market economies employing labor and producing goods and services outside direct state control. Rising real incomes and growth rates averaging ten percent in recent years primarily derive from these large market sectors.

- The apparent dilemmas central to the reform debate juxtapose efficiency and growth against stability; independence of local managers and workers against central control. Even though Deng appears to have confidence in a mix of state control and market forces, "socialism with Chinese characteristics," these dilemmas seem to threaten the core of the traditional party-command economic system. The debate unleashed by Deng Xiaoping in January 1992 may lead to decisions that will have significant economic, political, and social effects on the People's Republic of China and the Chinese role in the international community. From interviews and discussions in China one may conclude that urban enterprise reforms and openness to the global market place will continue, although the full implications of these measures will, at best, be clarified only after the next Party Congress slated for late 1992.

- Western interests--especially those of Japan and the United States--will be affected by the success or failure of the urban reforms. An economically stronger China may be more assertive, while an economically weaker, more isolated China may be more unpredictable and uncooperative, e.g., emphasizing military sales and proliferation in foreign commerce. A more interdependent China may expand trade and investment opportunities, adhere to international norms, e.g., international agency economic conditionality, human rights, security affairs, while a more isolated China may disrupt trade and play a "loner" role in international affairs. While enterprise reform may bring China closer to the West, issues such as nuclear proliferation, human rights, restrictive trade policies (especially if MFN waiver conditions conflict with development of a Chinese/American commercial policy) may not be easily resolved. The period after the Party Congress and U.S. elections (both in the fall of 1992) may provide an opportune time for both sides to reassess their relationship, if reform implementation has a favorable effect on Chinese domestic policy.

CRS Reports are prepared for Members and committees of Congress

CHINESE AGRICULTURE AND NON-STATE SECTORS ARE NOW MARKET ECONOMIES AND SUCCESSFUL[1]

The expanded role of the non-state sector, continued price reform, and decentralization of foreign trade have made Chinese reform more pervasive than reform in any East European economy in transition to date. The non-state sector that provided about one-third of the national product in 1980, a decade later is providing close to two thirds of the national product, or similar to its share in Italy. Half of all commodity prices are determined by supply and demand, while many other prices fluctuate within ranges set by the state. By 1990, the state monopoly on foreign commercial trading had been broken.[2]

In view of the dramatic increase in the market sector, with attendant competitive pricing and decentralization of foreign trade, the proposed urban enterprise reform tackles the last major island of state command-economy control in a sea of competitive markets. This is not a change from largely centrally controlled to a market economy in some isolated special zones of the South, but a process of providing the capstone to a remarkable economic transition. Moreover, over the last decade economic reform was accompanied by ten percent average annual growth, i.e. no "shock therapy" in transition.

While there are still areas of poverty and slow growth in China, the majority of the population resides in areas of increased consumption and opportunity for economic betterment. What is more, the introduction of major reforms into China was not nearly as painful as in East Europe and the former Soviet Union. First, it was essentially accomplished with rising real income and of increased material benefits. Secondly, because of substantial local autonomy, to a greater or lesser degree, the provincial leaders and populace throughout China have been independently emulating the reforms which have already taken place in the special economic zones and the areas around Hong Kong. In other words, in China, policy has followed popular sentiment as much as led change. This process is not new. It was said that in introducing the responsibility system into rural China in 1978-1984 Deng formalized many of the changes that the peasants themselves had already initiated.

OUTCOME OF ENTERPRISE REFORM MAY DEFINE CHINA'S FUTURE

Deng Xiaoping's January 1992 trip to the south, calling for enterprise reform and more openness, caused a resumption of the debate on urban enterprise reform and specifically on what new steps should be taken toward an urban market economy at home and increased openness to the global market. These would be the most important reform measures adopted since the implementation of rural reform and the creation of special economic zones in the 1979-84 period. Although senior leaders may agree that economic reform is necessary to insure Chinese domestic development and position in the world, significant differences on implementation, especially between party elders Deng and Chen Yun, have led to the serious debate that may not be resolved until the 14th Party Congress, scheduled to meet later this year. What is now called for, according to Sun Shuyi, director of the Department of Production Systems under the State Commission for Restructuring the Economic Systems, is full implementation of the Enterprise Law of 1988, "pushing enterprises into the market, improving the contract responsibility system, expanding experimentation of the system of the separate flow of taxes and profits, and strengthening guidance of the stock market system."

---

[1] Robert Sutter, CRS Report, 92-324S, Congress and the Crises in U.S.-China Policy, March 11, 1992. Shirley Kan, CRS Report 91-731F, China's Military: Roles and Implications for U.S. Policy Toward China. October 3, 1991. Wayne M. Morrison, CRS IB 91121, "China-U.S. Trade Issues", June 8, 1992. "The Chinese Economy in 1991 and 1992: Pressures to Revisit Reform Mounts." CIA Testimony to Joint Economic Committee, July 27, 1992.

[2] Nicholas R. Lardy, "Redefining U.S.-China Economic Relations", National Bureau of Asian and Soviet Research, June 1991, No. 5.

Issues of inflation and political stability seem central to the debate on the introduction of autonomy and responsibility to most industrial enterprises both in and outside the special economic zones. Some adjustment of the social programs, financial responsibilities for enterprises, expansion of joint stock companies and introduction of more stock markets are also proposed. Special zones (Shenzhen, and others) and the southern provinces of Guangdong and Hainan near Hong Kong are considered models for future development. There is considerable discussion of further preferential treatment for Shanghai and Dalian. Governor Liu Jianfeng of Hainan Island has a *laissez faire* type slogan "Small Government, Great Society". If the State Council Decree on Enterprise Reform were now fully implemented and applied to all regions of China, the state control of enterprises would end and the industrial management would be monetized.

Deng insists that socialism and an open-market environment are compatible -- a conception of a socialist market, incidentally, which was a central fault line in Gorbachev's perestroika policy. If Deng's views on the economy are adopted, major personnel changes may be made in the party and government. It may even include the appointment of Zou Jiahua, a moderate in charge of economic policy, as a new Prime Minister.[3] The serious debate now taking place in China may lead to a "defining moment" in the history of the country. Will enterprise reform in urban enterprises transform China into a market system? With an open market system will democratic forces be encouraged?

The central feature of the debate is the timing and the degree of implementation of the enterprise reform that was enacted into law in 1988. Partial implementation has been undertaken in the south, especially the economic zones of Hainan and Shenzhen, where the degree of local independence is pronounced. The economic performance in those areas have been especially favorable in attracting foreign investment and in increasing consumer income. Although these regions were special in their privileges and their proximity to Hong Kong, they have nonetheless provided models to encourage the full implementation of enterprise reform. Especially at stake is party and central state control. Each of the merits of the new reform, however, appear to have off-setting demerits in the view of Chinese leaders, based on my recent discussions. There are two particular dilemmas: (1) the economic efficiency and growth expected from reform may generate substantial inflation and political instability; (2) the improved economic performance strengthening Chinese economic power may result in the loss of political control by the current central leadership and diminished independence from foreign influence.

---

[3] Simon Holberton, "Split Over Speed of Reform", suggests that Mr. Zou, currently head of the State Planning Commission, is favored to replace Li Peng as Prime Minister, Financial Times, June 16, 1992.

DILEMMA 1 - EFFICIENCY AND GROWTH VS. ECONOMIC AND POLITICAL STABILITY

- Self financing of enterprises. More efficiency due to increased incentives to managers and workers . . . but, possible destabilization from increased inflation and bankruptcies.

- Expansion of stock markets. Broadened financial support and stimulation of successful enterprises . . . but, increased influence of foreign investors from Hong Kong and elsewhere, with pressure to attain short term profits rather than long term investments.

DILEMMA 2 - ENTERPRISE MANAGER AND WORKER RESPONSIBILITY VS. STATE/PARTY AND CENTRAL CONTROL

- Independence of enterprises from state economic control. Less burden on enterprises for maintaining employment, incomes, social security... but, increased burden on state financing to minimize unemployment and provide a social safety net without direct control or new tax revenues.

- Increased authority of enterprises to seek financing through sales of stock and joint ventures. Increased source of capital, technology and management skills . . . but, decreased party and central control and therefore increased uncertainty on the availability of external funding.

The successful transition to the market in the special economic zones and in south China and the transition to the market by many urban enterprises can be credited in part to the substantial investment and managerial expertise provided by Hong Kong and other foreign investors. The enterprise reform now being considered by Chinese leadership and its extension to more regions of China, and possibly to China as a whole, would undoubtedly attempt to draw on the success of the southern Chinese model in urban enterprise reform and trade decentralization.[4] The direct transference of success from this model may be difficult for a number of reasons:

- Special privileges and preferences for special zones cannot easily be spread to all of the regions. There has already been a shift of resources to the open market economy regions at the expense of other areas.

- The proximity of the southern zones to Hong Kong investors make them particularly attractive, but the investment favors short term over long term infrastructure developments. In other areas, not only far more foreign investment would be needed to duplicate the successes achieved in the south, but the undeveloped economies may be more demanding of investment and less profitable.

- Efforts to extend the southern model to the rest of China-- especially the interior-- would have to overcome serious shortages in material, human resources, and infrastructure.

---

[4] Barry Naughton, Testimony to the Joint Economic Committee of the U.S. Congress. 1991.

The southern model provides a degree of measured openness which allows selected investments by overseas Chinese, Japanese corporations, as well as aid from international organizations, while limiting political/economic conditionality or "intervention". Investment to date has limited foreign control and assistance is generally not conditional. To attract the substantial increase in foreign investment and assistance foreign partner conditionality would probably be necessary. To assure greater efficiency and an appropriate return on foreign investment, the emulation of southern special economic zones in the north is likely to require more stringent conditions in the use of foreign capital and assistance. This would present the Chinese with a choice between greater foreign involvement with all of its political implications, or a down-scaling of future foreign stimuli which is so important to China's reforms. As some estimates place Chinese future foreign investment requirements as high as $25 billion the perceived political cost of interdependence may seem too high to some Chinese leaders to attract necessary investment and assistance.

CHINESE POLITICAL AND PLURALISM MAY COME WITH REFORM BUT NOT ENOUGH TO SATISFY THE WEST.

Deng believes that socialism--political control by the Communist Party and a significant economic control in the center by the state--is possible with a full-scale transition to the market. This assumption of Deng, that market development will not be accompanied by political pluralism is open to question. Urban enterprise reform may be just the capstone of a dynamic and productive process of reform, but it strikes at the central economic basis of party control and power.

Minister Chen Jinhua currently indicates that China is prepared to implement enterprise reform and further integrate its economy with that of the world.[5] Direct control would give way to indirect controls with enterprise autonomy and responsibility this is considered compatible with public ownership and a combination of economic planning and market regulation. The four basic principles would continue to be:

(1) Adherence to the socialist road.
(2) To communist party leadership.
(3) To people's democratic dictatorship.
(4) To Marxism-Leninism and Mao Zedong Thought.

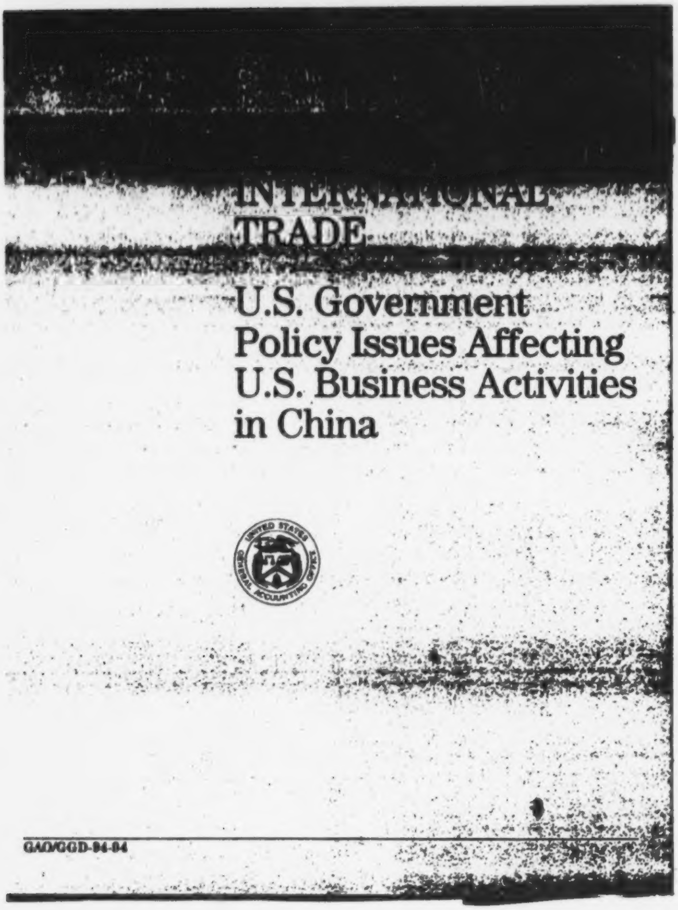
If the further marketization inherent in the current reform implementation is adopted one would have to be quite flexible in reinterpretation of these four cardinal principles, in my view. However, socialism with Chinese characteristics may have less meaning for its socialist than for its Chinese characteristics. The process of Chinese openness and "democratic" development that accompany marketization may have less North Atlantic emphasis on the adoption of political and human rights norms accompanying the economic reform process than the transition in Europe following the Conference of Security and Co-operation in Europe (CSCE) norms.[6] Chinese characteristics may therefore make the market transition in China less supportable by the West than European transitions. In short the principles of market development (Basket Two of the CSCE process) is more likely to be adhered to in China while democratic development of political pluralism and human rights (Basket III in the CSCE process) seem much more problematic. This Chinese emphasis more on market and less on democratic principles in reform would weaken Western approval and support.[7]

---

[5] Chen Jinhua [Minister in Charge of the State Commission 'or Restructuring the Economy of the People's Republic of China]. "China's Reform: Progress and Initiatives", Foreign Affairs Journal No. 24, June 1992, Beijing: pp. 1-9.

[6] See CSCE Helsinki Document 1992, The Challenges of Change. Helsinki, Finland, July 1992.

[7] John P. Hardt visited China May 12-18, 1992. Previous visits to China were with Congressional Trade delegations in 1965 and a Chinese-Soviet specialist delegation in 1984. He edited Joint Economic Committee volumes Chinese Economic Dilemmas in the 1990s: The Problems of Reform, Modernization, and Interdependence, April 1991. During his visit he had extensive interviews with: **ZOU JIAHUA**, Vice Premier in charge of economic reform, **GAO SHANGQUAN**, Vice Minister State Committee for Restoring the Economic System. **ZHENG BIJIAN**, Executive Vice President, Chinese Academy of Sciences (CASS). **LIU GUOGUANG**, Vice President, Chinese Academy of Social Sciences (CASS) **XU XIN**, Director of Beijing Institute for International Studies (BIISS) (Xu Xin is also one of eight four-star generals on active duty with the Peoples Liberation Army.) **XU YIMIN**, Deputy Chairman of BIISS. **PU SHAN**, Dean, Graduate School CASS.



INTERNATIONAL TRADE

U.S. Government Policy Issues Affecting U.S. Business Activities in China

GAO/GGD-94-94

GAO
United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-256458

May 4, 1994

The Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable Joseph I. Lieberman
United States Senate

This report responds to your request that we review major U.S. government programs and policies that either promote or hinder U.S. business activities in China. Specifically, we identified (1) factors contributing to the growing importance of the U.S.-China trade relationship, (2) U.S. government and international programs to promote bilateral trade and support the development of China's economy, and (3) U.S. government policies that may decrease U.S. business opportunities in China. In addition, at your request, we provided information on discrepancies in U.S.-China trade statistics and on prospects for increased U.S. participation in China's petroleum sector.

As arranged with you, we plan no further distribution of this report until 30 days from its issue date unless you publicly announce its contents earlier. At that time, we will send copies of this report to the Secretaries of State, the Treasury, Commerce, and Energy; and to the U.S. Trade Representative. Copies will be made available to others upon request.

Please contact me on (202) 512-4812 if you or your staff have questions concerning this report. Other major contributors to this report are listed in appendix IV.

Allan I. Mendelowitz

Allan I. Mendelowitz, Managing Director
International Trade, Finance,
and Competitiveness

Executive Summary

Purpose

With one of the world's fastest-growing economies and a population of 1.2 billion, the People's Republic of China is becoming an increasingly important player in the world trading system. In light of this development, the Chairman of the Senate Committee on Governmental Affairs, and Senator Joseph I. Lieberman, asked GAO to review major U.S. government programs and policies that either promote or hinder U.S. business activities in China. Specifically, GAO identified (1) factors contributing to the growing importance of the U.S.-China trade relationship, (2) U.S. government and international programs to promote bilateral trade and support the development of China's economy, and (3) U.S. government policies that may decrease U.S. business opportunities in China. GAO also discusses how the United States is attempting to balance its economic, human rights, security, and other interests in its relationship with China.

Background

The United States has important commercial, political, and security interests in China. China's dramatic economic growth, large population, and increasing trade and investment liberalization create challenges and opportunities for U.S. and foreign companies. If the United States is to compete successfully in the world economy, this growing market cannot be ignored. At the same time, the U.S. government continues to express serious concerns about China's human rights policies, trade practices, and exports of certain military technologies. The ability of the U.S. government to balance and integrate these sometimes conflicting interests is essential to an effective U.S. policy towards China.

In the course of its work, GAO consulted a wide range of organizations, including U.S. government agencies, major U.S. business associations, U.S. companies with business interests in China, and multilateral financial institutions. In addition, GAO met with Chinese government officials, U.S. embassy and consulate officials, human rights organizations, and U.S. business representatives in China and Hong Kong (see app. III for major sources of information).

Results in Brief

The U.S. commercial relationship with China has gained importance in recent years as China's economy has expanded and as bilateral trade has increased. China's economy experienced remarkable growth of 12.8 percent in 1992. Meanwhile, total trade between the United States and China increased by 65 percent in nominal terms from 1990 to 1992. China's efforts to liberalize its trade regime and open its economy to foreign investment have contributed to the increased interest among U.S. companies in this dynamic market.

The U.S. government has a number of programs to facilitate U.S. business activities with China. The Office of the U.S. Trade Representative is working to reduce barriers to both trade and investment in China. The Department of Commerce and the U.S. Export-Import Bank provide export promotion and financing services to U.S. companies exporting to China. In addition, multilateral agencies, such as the World Bank and the Asian Development Bank, provide loans to support the development of China's economy. U.S. companies are eligible to compete for contracts associated with these projects.

The effectiveness of the U.S. government's effort to integrate its China trade policy with other important U.S. policy objectives in China will affect the extent to which U.S. companies can realize the business opportunities associated with China's economic growth and development. For example, U.S. efforts to promote improved human rights and weapons nonproliferation practices in China are significant factors in U.S. government policies that may restrict U.S.-China business activities. U.S. government and private sector officials cited uncertainty surrounding the annual renewal of China's most-favored-nation trade status as the single most important issue affecting U.S. trade relations with China. (Most-favored-nation treatment generally refers to the practice of extending to a country the best trade privileges granted to any other nation in the form of the lowest tariff rates and other charges imposed on imported products.) Other issues of concern for U.S. companies and business associations include U.S. and multilateral export controls that restrict sales of certain technologies to China and U.S. policies that restrict government financing for U.S. business activities in China.

As the June 1994 deadline approaches for the President's decision on whether to renew China's most-favored-nation status, policymakers in Congress and in the administration will have to carefully weigh the benefits and costs of various strategies to achieve the multiple U.S. objectives in China. GAO's work underscores the view of business interests and government officials that most-favored-nation treatment is central to the U.S.-China relationship. A decision not to renew most-favored-nation status could damage U.S. foreign policy and security, as well as economic, interests in China. But what cannot be easily assessed is the potential for adverse effects on human rights conditions in China if most-favored-nation status is renewed without clear signs of overall significant progress as required by the President's May 1993 executive order. Equally unclear are the consequences of such an action for the credibility of future U.S. foreign policy initiatives.

GAO's Analysis

China's Importance as a U.S. Trading Partner Has Increased

The growing significance of the U.S. commercial relationship with China can be attributed to a number of factors, including China's economic growth and reform, increasing bilateral trade, and Chinese government investment plans. Since the late 1970s, China has made efforts to reform its economy and liberalize its trade regime (see pp. 17-24). The economic reform program has resulted in increased economic competition among domestic enterprises, price liberalization, and growing autonomy for state-owned enterprises. China has also taken steps to reduce barriers to foreign imports and investment in certain sectors. For example, in early 1993 the Chinese government announced that it would allow foreign participation in oil exploration and production projects in previously closed areas in northwest China (see app. II, pp. 69-71).

Between 1980 and 1992, two-way trade between the United States and China tripled as a percentage of total U.S. trade. U.S. exports to China totaled $7.5 billion in 1992, while imports from China were $27.4 billion. In 1992, the United States was China's third largest trading partner, and China's trade with the United States represented about 21 percent of Chinese world trade of $168 billion, according to International Monetary Fund statistics (see pp. 20-1).

China's economic development plan for the years 1991-95 indicates that the government of China planned to invest over $300 billion during this period, with high priority given to capital construction in sectors such as energy, transportation, and communications. China's development strategy, combined with its economic growth, may present opportunities for U.S. trade and investment in industries where U.S. companies are competitive. For example, the Commerce Department's U.S. and Foreign Commercial Service identified growing markets in China for U.S. sales of aircraft and aircraft parts, oil and gas field machinery and services, and telecommunications equipment, among other things (see pp. 25-6). U.S. companies GAO contacted cited China's economic growth, market potential, economic reform, and trade liberalization among the primary factors that make China an attractive market (see p. 27).

The U.S. Government Has Programs to Promote U.S. Business Activities in China

U.S. agencies such as the Office of the U.S. Trade Representative, the Department of Commerce, and the U.S. Export-Import Bank have programs to facilitate or reduce barriers to bilateral trade. In 1992, USTR negotiated two bilateral memoranda of understanding with China, under which the Chinese government pledged to reduce market barriers, such as quantitative restrictions on imports and import licensing requirements, and improve legal protection of intellectual property rights, such as copyrights and patents (see pp. 28-30). USTR is now monitoring the implementation of these agreements and is participating in international negotiations on China's application to join the General Agreement on Tariffs and Trade (see pp. 30-3).

The U.S. and Foreign Commercial Service is continuing its export promotion programs in China and leading U.S. participation in the U.S.-China Joint Commission on Commerce and Trade (see pp. 34-5). In addition, the U.S. Export-Import Bank extended about $402 million in loans and loan guarantees to support U.S. exports to China in fiscal year 1992 (see pp. 34-5). In that year, the World Bank and the Asian Development Bank provided loans of $2.5 billion and $903 million, respectively, to help develop projects in a variety of sectors of China's economy (see pp. 36-8). U.S. firms are eligible to bid for contracts for these projects.

Implications of Other U.S. Government Policies for U.S. Business Activities in China

U.S. concerns about Chinese violations of human rights and proliferation of weapons have led to the adoption of U.S. government policies that may have significant adverse implications for U.S. trade and investment activities in China. A primary concern for the 5 U.S. business associations and 15 large corporations GAO contacted was China's most-favored-nation trade status. According to these business associations and companies, the uncertainty over whether the U.S. government will withdraw or place further conditions on the renewal of China's most-favored-nation trade status affects the ability of U.S. companies to do business in China (see pp. 43-5). Some U.S. companies and business associations told GAO that uncertainty about the renewal of China's most-favored-nation status makes long-term planning difficult and contributes to tensions in U.S.-China trade relationships. In addition, they expressed concern about the potential for Chinese retaliation against U.S. exporters and investors if the U.S. government were to revoke China's most-favored-nation status.

U.S. companies and business associations that GAO contacted also raised concerns about unilateral and multilateral export controls (see pp. 48-9). Export controls related to unilateral U.S. sanctions imposed after the 1989 Tiananmen Square events continue to restrict sales of certain U.S. products, such as nuclear power generation equipment. In addition, controls instituted in conjunction with the former Coordinating Committee on Multilateral Export Controls for the export of dual-use (civilian items with military applications) and high-technology items have limited U.S. business activities in China, according to some U.S. companies. (The Coordinating Committee was established in 1949 to protect the strategic technology advantage of its 17 members.)[1] According to some U.S. business associations, liberalization of export controls failed to keep pace with the rapid development of new technologies and thus may have put U.S. companies at a disadvantage relative to countries that were not members of the Coordinating Committee.

Some of the U.S. companies GAO spoke to also expressed concern about the limited availability of U.S. government financing for trade and investment projects in China. For example, the China programs of both the Overseas Private Investment Corporation, which provides risk insurance and financing for U.S. investment in developing countries, and the Trade and Development Agency, which funds U.S. feasibility studies in developing countries, were suspended in 1989 following the Tiananmen Square events (see pp. 49-50). Although the U.S. Export-Import Bank continued its U.S. export financing operations in China during this period, some U.S. companies said they are at a disadvantage when competing with foreign companies whose governments provide (1) more extensive export credits, (2) aid tied to purchases of foreign country goods, and (3) development assistance to support business activities in China (see pp. 50-1).

Balancing U.S. Policy Objectives in China

The United States has important and wide-ranging economic, political, and security interests in China. Most-favored-nation trade status is central to the U.S.-China bilateral relationship. It is important not only to trade, but also has significant implications for the U.S. government's ability to influence China on a variety of other foreign policy and security interests. As reflected in the President's May 1993 executive order on conditions for the 1994 renewal of China's most-favored-nation status, U.S. concerns about Chinese human rights violations have become an increasingly important consideration in overall U.S. policy towards China (see pp. 39-42). As a significant export market for Chinese goods, the United States has attempted to exert leverage by conditioning China's most-favored-nation status renewal on improvements in human rights practices. Other countries that have important trade relationships with China have not joined the United States in this strategy. In addition to economic sanctions, the U.S. government has available alternative channels through which to pursue its policy objectives in China (see pp. 52-4).

---

[1] In November 1993, representatives of the 17 Coordinating Committee member countries met to discuss proposals to terminate the Coordinating Committee and to establish a new organization to coordinate the export of strategic goods. These nations set an April 1994 deadline to replace the Coordinating Committee. As of April 1994, the Coordinating Committee went out of existence, but a new arrangement had yet to be formed. Thus, it was unclear how any new arrangement would affect U.S. exports of dual-use technologies to China.

China's growing role in global economic and political affairs, the broad spectrum of U.S. interests in China, and the potential economic and political costs of ending China's most-favored-nation trade status all underline the importance of the President's 1994 decision on whether to renew China's most-favored-nation status. As the decision deadline approaches, policymakers in Congress and in the administration will have to carefully weigh the benefits and costs of various strategies to achieve the multiple U.S. objectives in China.

Recommendations

GAO is making no recommendations in this report.

Agency Comments

GAO discussed applicable sections of this report with responsible program officials from the Office of the U.S. Trade Representative, the Departments of the Treasury and Commerce, the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency. These officials suggested some technical changes and/or factual updates, which GAO made where appropriate, but generally agreed with the information presented. GAO also shared a summary of its results with the embassy of China in Washington, D.C., but did not receive any comments from Chinese government officials.

Introduction

As the People's Republic of China has taken on an expanding role in global affairs, U.S. policymakers have had to assess the variety of U.S. interests in China. Primary among these are economic interests, human rights concerns, and security objectives. Recognizing the complexity and significance of these issues, the U.S. government continues to search for a balanced and integrated approach to its relations with China.

China's Growing Role in World Affairs

Although no longer viewed as a strategic counterweight to the former Soviet Union, China occupies an important place in U.S. foreign policy, according to administration statements. China is a growing military power, commanding nuclear as well as conventional technologies. It is one of the world's fastest-growing economies, and, based on recent estimates by the International Monetary Fund (IMF), China is the world's third largest economy.[1] It holds a permanent seat on the United Nations (U.N.) Security Council and plays a key role in regional issues. In addition, China accounts for one-fifth of the world's population. Accordingly, Chinese policies will do much to shape the future of Asia, U.S. security and trade relations in the Pacific, and other international issues. Further, China's success or failure in addressing national problems, such as environmental protection, population control, treatment of refugees, and drug trafficking, will have a global impact.

U.S. Policy Interests in China

U.S. interests in China are complex and varied. They can be broadly categorized as economic, human rights, and security interests. The challenge for the United States is to find a way to effectively balance the multiplicity of these interests and associated objectives.

Economic Interests

The ability of U.S. companies to compete successfully and take advantage of opportunities in one of the world's fastest-growing markets is a factor in the creation of jobs and economic prosperity in the United States. Most-favored-nation (MFN) trade status is the keystone of U.S.-China economic relations, allowing bilateral trade at the favorable tariff rates accorded most other U.S. trading partners.

---

[1] The IMF's method for measuring China's gross domestic product (GDP) is contained in an annex to the IMF's 1993 World Economic Outlook. Previous studies have compared each country's economic output by valuing its goods and services in a single currency, such as dollars, using market exchange rates. The method used in the IMF publication, known as "purchasing power parity," incorporates a more realistic valuation of nontraded output, such as housing and domestic transport.

Bilateral trade and investment ties between the United States and China have grown significantly over the last decade, making China the U.S.' seventh largest trading partner in 1992. U.S. exports to China grew by 19 percent from 1991 to 1992, and rapid growth is expected to continue. As one of China's largest foreign investors, the United States also has an enduring interest in promoting improvements in China's business environment to allow increased market access, better protection of intellectual property rights, and adherence to internationally accepted trading practices.

Human Rights Interests

The U.S.' historical commitment to promoting democracy and respect for human rights worldwide is key to its policy towards China. As defined in the President's May 1993 executive order,[5] specific areas in which the United States is encouraging improved human rights practices in China include complying with a 1992 bilateral agreement concerning exports of goods made with prison labor; ensuring freedom of emigration; taking steps to begin adhering to the Universal Declaration on Human Rights; releasing and accounting for Chinese citizens imprisoned or detained for nonviolent expression of political and religious beliefs; ensuring humane treatment of prisoners, and allowing access to prisons by international humanitarian organizations; protecting the religious and cultural heritage of Tibet; and permitting international radio and television broadcasts into China.

Security Interests

The United States also has a crucial interest in contributing to the maintenance of a stable balance of power in the Asia-Pacific region, recognizing China as one of the key players. Among its broad security objectives in China, the United States seeks to encourage Chinese participation in the peaceful resolution of regional conflicts in countries such as Cambodia; to monitor Chinese efforts to modernize and expand its conventional and nuclear military capabilities; and to facilitate Chinese cooperation in international efforts to curb the proliferation of weapons.

Objectives, Scope, and Methodology

In light of China's increasing importance as a player in the world trading system, the Chairman of the Senate Committee on Governmental Affairs, and Senator Joseph I. Lieberman, asked us to identify (1) factors contributing to the growing importance of the U.S.-China trade relationship, (2) U.S. government and international programs to facilitate bilateral trade and support the development of China's economy, and (3) U.S. government policies that may decrease U.S. business opportunities in China. We also discuss how the United States is attempting to balance its economic, human rights, security, and other interests in its relationship with China. In addition, our requesters asked us to provide information on discrepancies between the bilateral trade statistics recorded by the United States and China (see app. I) and on prospects for increased U.S. participation in China's petroleum sector (see app. II).

---

[5] Executive Order #12850, "Conditions for Renewal of MFN Status for the People's Republic of China in 1994," May 28, 1993.

To identify factors contributing to the growing importance of the economic relationship between the United States and China, we compiled trade and investment data from several sources, including the U.S. Department of Commerce, the IMF, and the U.S.-China Business Council.[3] The IMF was our source for statistics on China's world trade and on bilateral trade between the United States and China. (However, as discussed in app. I, the U.S. and Chinese governments have different methods of interpreting bilateral trade data.)

We obtained information on China's economic and trade reforms and principal economic indicators primarily from interviews and reports provided by the World Bank, the IMF, the State Department, the U.S. intelligence community, and the Chinese government. We reviewed in translation an outline of China's 1991-1995 five-year plan for information on China's economic development and investment strategies and consulted a World Bank report that analyzed the plan. We identified the prospects for increased U.S. business with China using reports by the Commerce Department's U.S. and Foreign Commercial Service (US&FCS); interviews with U.S. Commerce, State, and U.S. Trade Representative (USTR) officials; and interviews with U.S. business associations and companies doing business in China. In addition, we traveled to China and Hong Kong in February and March 1994, where we interviewed U.S. embassy and consulate officials, Chinese government officials, U.S. business representatives, and officers of Human Rights Watch, Asia.

We gathered information on U.S. government efforts to facilitate U.S. trad and investment in China from relevant agencies including USTR, the Departments of Commerce and State, and the Export-Import Bank

---

[3] The U.S.-China Business Council is a private, nonprofit membership association that represents the interests of U.S. business in China. It had over 200 members in 1993.

(Eximbank).[4] In addition, we collected information from several international organizations that provide funding for economic development projects in China, including the World Bank, the International Finance Corporation (IFC), the Asian Development Bank (ADB), and the Overseas Economic Cooperation Fund (OECF).

To identify major U.S. government policy issues that may hinder U.S. business activities in China, we interviewed responsible officials from U.S. government agencies, business associations, human rights organizations, and individual companies. These individuals also provided us with relevant documents and reports. The agencies we contacted included USTR; the Departments of Commerce, State, and the Treasury; and the Eximbank. Our contacts also included major U.S. business associations such as the U.S. Chamber of Commerce, the American Chamber of Commerce in Beijing, the U.S.-China Business Council, and the National Association of Manufacturers.[5] We selected these particular associations because they represent a broad spectrum of U.S. industry sectors and companies that are active in trade with China. We also attended several seminars and conferences in the United States, where panelists discussed these issues in detail.

As part of our effort to identify U.S. government policies that affect U.S. business activities in China, we conducted a series of structured interviews with 15 large U.S. companies with current trade and/or investment interests in China. This group of companies was judgmentally selected in order to reflect a variety of industry sectors, but it is not necessarily representative of all U.S. companies doing business in China.

In our analysis of the discrepancy between U.S. and Chinese trade statistics, we utilized trade data from the IMF and the World Bank. In reviewing U.S. prospects for increased U.S. participation in China's petroleum sector, we obtained information from relevant agencies, including the Departments of State, Commerce, and Energy (DOE). We also gathered information from the World Bank, the East-West Center, the

---

[4] Eximbank is an independent agency that facilitates the export financing of U.S. goods and services by compensating for export credit subsidies from other governments and absorbing reasonable credit risks that are beyond the current reach of private sector lenders.

[5] The National Association of Manufacturers is a broad-based national trade association established in 1895. Its more than 12,000 member companies account for approximately 80 percent of U.S. manufacturing output and jobs, according to association statements.

Lawrence Berkeley Laboratory,[6] and the American Petroleum Institute. In order to identify factors that either encourage or discourage investment in China's petroleum sector, we conducted interviews with selected U.S. oil companies, based on a list provided by the American Petroleum Institute.

We conducted our work between August 1992 and March 1994 in accordance with generally accepted government auditing standards.

We discussed applicable sections of this report with responsible program officials from USTR, the Departments of the Treasury and Commerce, the Eximbank, the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA). These agencies suggested some technical changes and/or factual updates, which we made where appropriate, but generally agreed with the information presented. We also shared a summary of our findings with the embassy of China in Washington, D.C., but did not receive any comments from Chinese government officials.

---

[6] The Lawrence Berkeley Laboratory, (Berkeley, CA) is a multiprogram national research facility operated by the University of California for the Department of Energy. Its fundamental mission is to provide national scientific leadership and technological innovation to support DOE's objectives.

Chapter 2

China's Importance as a U.S. Trading Partner

The U.S. commercial relationship with China has gained importance as China's economy has grown and as the government of China has pursued a course of sporadic but significant economic reform. Between 1985 and 1992, China's total world trade more than doubled, while trade between the United States and China more than tripled.[1] In 1993 the United States was the world's fourth leading foreign investor in China, after Hong Kong, Japan, and Taiwan.

With remarkable growth in 1992, China is now recognized as one of the world's fastest-growing economies. This fact, combined with China's efforts to liberalize trade and encourage investment, has attracted the interest of U.S. and other foreign companies. In addition, Chinese government plans to increase investment in key sectors may create opportunities for foreign companies. According to Commerce Department reports, aerospace, computers, telecommunications, and energy are among the most promising sectors for U.S. trade with and investment in China.

China's Economy

China's economy is large and growing rapidly. A 1993 IMF study concluded that China's economy is now the world's third largest, after the United States' and Japan's. China's GDP increased at a rate of 12.8 percent in 1992, while industrial output grew by over 20 percent. (By comparison, real GDP growth averaged 1.6 percent for industrial countries and 6.1 percent for developing countries in 1992.) Economic growth in China's southern provinces far exceeds the national rate, according to U.S. embassy reports. For example, Guangdong Province, with a population of 68 million, is experiencing annual industrial output growth of over 25 percent.

In addition, rapid economic growth continues to raise living standards in China, with 1992 real incomes increasing 9 percent and 6 percent for urban and rural residents, respectively. While China's consumer price inflation rate for 1992 was estimated at a moderate 6.3 percent,[2] inflation was considerably higher in urban areas and is an issue of increasing concern for the Chinese government.

China's economic expansion has been driven primarily by rapid growth in investment spending and exports. Gross domestic investment for 1992 increased by 37 percent in nominal terms over the previous year, according to a 1993 estimate,[3] while Chinese exports rose by 20 percent between 1991 and 1992. Chinese export growth has led to a significant accumulation of foreign exchange reserves, which reached almost $43 billion in February 1993.[4]

---

[1] All statistics in this chapter, including those in the tables, are reported in nominal U.S. dollars.

[2] World Market Report Update—China, DRI/McGraw-Hill (Lexington, MA: Apr. 1993).

Despite these positive trends, several economic challenges confront the Chinese government. First of all, China's state enterprises are losing money, according to a 1992 Central Intelligence Agency (CIA) report.[5] In 1991, industrial output from state firms increased at less than half the national rate, and at least one-third of state-owned enterprises were operating at a loss. The state budget deficit increased by 22 percent annually between 1987 and 1991, reaching $12.2 billion in 1991. In addition, some U.S. economists anticipate that China may begin to experience escalating inflation due to an overheated economy. Finally, China's underdeveloped transportation, telecommunications, and energy infrastructures hinder economic development and foreign investment.

Economic Reform

Over the last decade, the government of China has pursued economic reform. In an uneven process, its economy has evolved from a centrally planned system to one in which market forces have become more prevalent. The initiation of China's economic transition dates back to December 1978, when the Chinese leadership introduced a policy of "reform and opening up."

Since then, China has experienced several periods of economic reform, beginning with agricultural reforms in the late 1970s and early 1980s and proceeding with industrial sector reforms in the mid-1980s. Chinese leader Deng Xiaoping introduced market initiatives in the rural areas, such as freeing prices for agricultural goods and allowing households greater freedom to market their products. As a result, China's agricultural output and productivity rose dramatically. In addition, the development of township and village enterprises set the stage for China's industrial sector growth and reform in the following years.

China's urban and industrial sector reforms were designed to increase the autonomy of state-owned enterprises in setting prices and wages. In addition, the government introduced banking reforms, creating a new bank specifically for commercial functions. These reforms have resulted in expanded semiprivate industrial collectives, increased foreign trade and investment, and vigorous commercial rivalry among the provinces.[6] As China's private and semiprivate sector has grown, the portion of China's industrial output accounted for by state-owned firms has fallen. The CIA reported in July 1992 that state enterprises were producing less than 55 percent of China's industrial goods. Collective and family-run enterprises now produce over 33 percent of industrial output, while private enterprise and joint ventures account for the remainder, according to this report. State-owned firms' output share is expected to decrease further, to 25 percent by the year 2000. Also, the number of products allocated by the state plan has dropped sharply (from about 700 in 1978 to fewer than 20 in 1991), market pricing has become more prevalent, and competition has spread throughout the economy, according to The Economist.

---

[3] Planned Economies in Transition Outlook, The WEFA Group (Bala Cynwyd, PA: Apr. 1993).

[4] By this measure, China's foreign exchange reserves are the world's sixth largest, after the United States', with $44 billion.

[5] The Chinese Economy in 1991 and 1992: Pressure to Revisit Reform Mounts, Central Intelligence Agency, Directorate of Intelligence (Washington, D.C.: Aug. 1992). This report may be obtained from the Library of Congress.

The pace of economic reform has increased since 1992, although the government continues to reaffirm its commitment to socialist rule. In January 1992, Deng Xiaoping made a symbolic trip to China's reform-oriented southern coast to encourage the South to continue its progress and to further open up foreign trade and investment. Since that time, the Communist Party has issued official statements claiming that market forces are compatible with a socialist political system. For example, Chinese leaders participating in the October 1992 14th Communist Party Congress endorsed Deng Xiaoping's call for high growth, increased economic openness, and economic reform. Further, they reaffirmed the government's commitment to a "socialist market economy" and expressed support for the increased autonomy of state enterprises. U.S. embassy officials in Beijing reported that they do not anticipate any significant reversal of China's economic reform policies.

Trends in China's Trade and Investment

As shown in table 2.1, China's total trade with the world more than doubled between 1985 and 1992, according to IMF statistics. China's top trading partners in 1992 were, in rank order, Hong Kong, Japan, the United States, the former Soviet Union, and Germany. Altogether, China's total trade with these five nations accounted for 66 percent of China's reported world trade in 1992. China's world trade balance jumped from a $6 billion deficit in 1989 to a $10 billion surplus in 1990, resulting in part from efforts

---

[6] "When the Dragon Awakes: A Survey of China," The Economist, Vol. 325, No. 7787 (Nov. 28, 1992), pp. 1-18.

BEST COPY AVAILABLE

by the Chinese government to boost exports and to limit imports. The trade balance remained positive in 1991 and 1992. However, China's world trade balance shifted back to a deficit in the first half of 1993, according to Commerce Department and U.S.-China Business Council officials. This shift was attributed to China's rapid economic growth, increased domestic demand for imports, continued trade liberalization and decentralization, and relaxed credit policies.

Table 2.1: China's World Trade, 1985-92

Dollars in millions

Year	Exports	Imports	Total	Trade balance
1985	$27,329	$42,480	**$69,809**	-$15,151
1986	31,367	43,247	**74,614**	-11,880
1987	39,464	43,222	**82,686**	-3,758
1988	47,663	55,352	**103,015**	-7,689
1989	52,914	59,140	**112,054**	-6,226
1990	64,500	54,449	**118,949**	+10,051
1991	71,986	63,957	**135,943**	+8,029
1992	86,220	81,739	**167,959**	+4,481

Source: IMF, 1993

In 1992, China's trade with the United States represented about 21 percent of its total trade of $168 billion. U.S.-China trade has grown rapidly since the two countries established MFN tariff treatment in 1980. Bilateral trade grew sevenfold, from $4.9 billion in 1980 to $34.9 billion in 1992. In 1992, China was the U.S.' seventh largest trading partner. Table 2.2 shows trends in U.S.-China trade between 1980 and 1992.

Table 2.2: U.S.-China Trade, 1980-92

Dollars in millions

Year	Chinese exports to the U.S.	U.S. exports to China	Total trade	U.S. trade balance
1980	$1,164	$3,755	$4,919	+$2,591
1981	2,062	3,603	5,665	+1,541
1982	2,502	2,912	5,414	+410
1983	2,477	2,173	4,650	-304
1984	3,381	3,004	6,385	-377
1985	4,224	3,856	8,080	-368
1986	5,241	3,106	8,347	-2,135
1987	6,910	3,497	10,407	-3,413
1988	9,261	5,017	14,278	-4,244
1989	12,901	5,807	18,708	-7,094
1990	16,296	4,807	21,103	-11,489
1991	20,305	6,287	26,592	-14,018
1992	27,413	7,470	34,883	-19,943

Source: IMF, 1993.

The United States was one of China's largest export markets in 1992. The principal U.S. imports from China in that year were textiles; toys, games, and sporting equipment; electrical machinery; footwear; luggage and handbags; and industrial machinery and computers. The principal U.S. exports to China in 1992 were commercial aircraft, industrial machinery and computers, fertilizers, electrical machinery, scientific and control instruments, and cereals. Between 1990 and 1992, rapidly growing Chinese exports to the United States included computers and industrial machinery, while fast-growing U.S. exports to China included commercial aircraft and scientific and control instruments.

Since 1980, Chinese exports to the United States have grown much more rapidly than U.S. exports to China. In 1980, China's exports to the United States totaled $1 billion, while U.S. exports to China were $3.8 billion. This relationship had changed dramatically by 1992, when China's exports to the United States reached $27.4 billion, while U.S. exports to China lagged far behind at $7.5 billion. Thus, the U.S. trade deficit with China reached $19.9 billion in 1992, despite a 19 percent increase in U.S. exports to China over the previous year.

The U.S. and Chinese governments disagree over how bilateral trade statistics should be calculated. The Chinese government records many goods that it ships through Hong Kong as Chinese exports to Hong Kong, while the United States records these goods as Chinese exports to the United States. Largely as a result of this recording difference, there was a $20 billion discrepancy in 1992 between Chinese statistics on exports to the United States and U.S. statistics on imports from China. Appendix I provides a detailed explanation of this issue.

As shown in table 2.3, contracted foreign investment in China shot up from $12 billion in 1991 to $57.5 billion in 1992, according to statistics provided by China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC). As of February 1993, China's principal foreign investors were Hong Kong, Japan, Taiwan, and the United States, according to the Commerce Department. The majority of these investments were in small, export-oriented ventures by Hong Kong or overseas Chinese investors. In addition, foreign investors have set up a large number of medium- to high-technology ventures designed to sell in China's domestic market.

Table 2.3: Annual Foreign Investment in China, 1987-92

Dollars in billions

Year	Contracted investment	Utilized investment
1987	$3.7	$2.3
1988	5.3	3.2
1989	5.6	3.4
1990	6.6	3.5
1991	12.0	4.4
1992	57.5	11.2

Note: "Contracted investment" refers to contracts signed between foreign companies and Chinese partners, but does not represent an actual transfer of capital. "Utilized investment" refers to a transfer of capital officially recorded by MOFTEC between a foreign investor and a Chinese partner. Figures represent the annual inflow of foreign investment, not the cumulative amount.

Source: MOFTEC.

As shown in table 2.4, U.S. contracted investment in China was $3.1 billion in 1992, accounting for about 5 percent of total contracted foreign direct investment in China, according to Chinese government statistics. The Commerce Department reported that U.S. investments in China include licensing and coproduction agreements, equity and contractual joint ventures, and wholly owned foreign enterprises. According to a USTR official, most U.S. ventures have been relatively small—in the range of

$1.2 million to $3 million—and have been concentrated in the southern region. In recent years, U.S. investments in China have shifted from a concentration in resource exploitation and property development to a greater involvement in manufacturing ventures.

Table 2.4: Annual U.S. Investment in China, 1987-92

Dollars in millions

Year	Contracted investment	Utilized investment
1987	$342	$263
1988	370	236
1989	641	284
1990	358	456
1991	548	323
1992	3,120	511

Note: "Contracted investment" refers to contracts signed between foreign companies and Chinese partners, but does not represent an actual transfer of capital. "Utilized investment" refers to a transfer of capital officially recorded by MOFTEC between a foreign investor and a Chinese partner. Figures represent the annual inflow of foreign investment, not the cumulative amount.

Source: MOFTEC.

Based on data gathered from 517 American foreign investment enterprises in China, the U.S.-China Business Council reported in 1990 that the top three sectors for U.S. investment in China, based on the number of contracts, were electronics (computers and electronic components); light industrial products (textiles, leather products, and consumer goods); and agriculture and food processing. Other leading sectors for U.S. investment were services, chemicals, natural resource development (including offshore oil), transportation, and tourism. Table 2.5 shows the number of U.S. contracts in China, by sector, as of 1989.

BEST COPY AVAILABLE 561

Table 2.5: U.S. Investment in China, by Sector, as of 1989

Sector	Number of projects	Average investment (millions)
Electronics	77	$1.11
Light industry	73	0.86
Food and agriculture	70	3.40
Services	48	0.54
Chemicals	40	5.92
Resources	33	7.27
Tourism	32	12.47
Transportation	31	6.00
Medical products	27	1.90
Miscellaneous equipment	20	2.75

Note: Table includes top 10 categories in U.S.-China Business Council database, but does not include oil exploration contracts or certain other forms of investment.

Source: U.S.-China Business Council, 1990.

China's Trade and Investment Policies and Plans

Over the last decade, China has taken steps to liberalize its trade regime and encourage foreign investment in order to benefit from technology transfers and western management practices. To complement domestic economic reforms, the government of China adopted its "Open Door Policy" in the late 1970s and early 1980s. The new strategy was comprised of four elements: trade policy reforms, a new joint venture law, exchange rate and macroeconomic policies, and special economic zones. Intended to attract foreign capital, companies, and expertise, the Open Door Policy has contributed to China's increased economic efficiency and productivity over the last decade.

However, the Chinese government has continued to employ administrative controls to regulate access of foreign firms to the Chinese market. USFCS reported that the Chinese government has designed an import policy to conserve foreign exchange and protect Chinese industries while attempting to ensure the inflow of materials in short supply and technology needed for modernization. In 1992, China pledged to reduce some of these controls when it signed bilateral agreements with the United States to improve market access and protection of intellectual property. In addition, the Chinese government has renewed its efforts to meet the requirements to join the General Agreement on Tariffs and Trade (GATT).[7] These efforts may lead to further Chinese trade liberalization.

China's Outline of the Ten-Year Program and of the Eighth Five-Year Plan for National Economic and Social Development summarizes the government's economic development strategy and investment plans for the years 1991-2000. As part of the "major tasks and important targets" of the plan, the Chinese government seeks to readjust China's industrial structure and gradually modernize the national economy. The plan focuses on six priority sectors: basic industries and infrastructure (such as energy, transport, and communications); electronics; agriculture; construction and services; defense; and processing industries.

The Eighth Five-Year Plan proposes total investment of 2,600 billion yuan—about 32 percent of gross national product (GNP) between 1991 and 1995.[8] Of this amount, state investment will constitute about 1,700 billion yuan, or 65 percent.[9] Slightly less than half of China's proposed state investment is slated for capital construction, with priority given to energy resources, transportation, communications, raw and semifinished materials, agriculture, and water conservation.

While the outline version of the plan does not contain detailed information on production and investment targets for individual subsectors, the priorities identified are reflected in China's investment allocations, according to the World Bank. For example, state investment in energy is expected to rise from 30 percent of the total in the Seventh Five-Year Plan to about 35 percent under the present plan. By developing hydropower, thermal power, and nuclear power-generating capacity, China plans to increase its total annual output of electricity by 31 percent between 1991 and 1995. The transport and telecommunications sectors are also expected to receive a larger share of state investment, with their combined share rising from 15 percent under the Seventh Five-Year Plan to about 18 percent under the current plan, according to the World Bank. Based on the Eighth Five-Year Plan, China intends to upgrade old railways using advanced technology, to build highways and airports, to increase coastal harbor construction, and to develop the telecommunications industry. In addition, China plans to advance its electronics industry by developing integrated circuits, computers, microelectronic technology, and telecommunications technology and equipment.

---

[7] GATT is a multilateral instrument with over 100 contracting parties that establishes rules for international trade. The primary objective of GATT is to liberalize world trade, thereby contributing to global economic growth and development.

[8] At the 1992 average exchange rate of 5.5 yuan to the dollar, 2,600 billion yuan equals $471 billion. The Eighth Five-Year Plan projects an average GNP growth rate of 6 percent from 1991 to 1995.

[9] At the 1992 average exchange rate, 1,700 billion yuan equals $309 billion.

Opportunities for U.S. Companies in China

China's development strategy and economic growth may provide opportunities for U.S. trade and investment in industries where U.S. companies are competitive. In its 1993 Country Marketing Plan, USAFCS identified and estimated the importance of 34 industry sectors providing the best prospects for U.S. companies in China. Among the top 10 "best prospects" were aircraft and aircraft parts, agricultural and industrial chemicals, oil and gas field machinery and services, computers and peripherals, telecommunications equipment, and electric power systems. For example, USAFCS estimated that China had a fast-growing, $3 billion market for aircraft and aircraft parts in 1992 and that China was very receptive to U.S. products in this sector. China's market for computers and peripherals was estimated at $1.3 billion in 1992, with a projected growth rate of 10 percent annually between 1992 and 1994. China's market for telecommunications equipment, including digital switches, facsimile machines, and cellular equipment, was estimated at $1.8 billion in 1992 and was projected to grow by 20 percent annually between 1992 and 1994. Table 2.6 summarizes selected market indicators for 10 sectors identified by USAFCS as the best prospects for U.S. exports to China.

Table 2.6: US&FCS Assessment of 10 Best Prospects for U.S. Exports to China

Industry sector	Estimated total market size 1992 (millions)	Estimated annual market growth rate 1992-94 (percent)	Estimated annual growth of imports from U.S. (percent)	China's receptivity to U.S. products in this sector[a]
Aircraft & parts	$3,000	20	15	5
Agricultural chemicals	7,380	5	10	3
Industrial chemicals	12,000	10	6	3
Oil & gas field machinery & services	5,000	10	10	4
Computers & peripherals	1,300	10	20	4
Mining industry equipment	1,829	15	10	4
Telecommunications equipment	1,800	20	5	4
Electric power systems	11,000	10	7	4
Avionics & support equipment	375	25	30	5
Agricultural machinery	6,000	10	5	3

[a] US&FCS rated China's receptivity to U.S. products in these sectors on a scale of 1 to 5, with 5 as the highest rating.

Source: U.S. Department of Commerce, 1993 *Country Marketing Plan*.

Factors That Make China an Attractive Market for U.S. Companies

U.S. companies we interviewed identified the primary factors that make China an attractive market. The most commonly cited were China's rapid economic growth and market potential, and China's recent economic reform and trade liberalization efforts.

All of the companies we spoke to cited China's market potential as their primary reason for wanting to do business in China. As reflected in a Commerce Department report and interviews with other agency officials, opportunities abound in industries such as computers, aerospace, telecommunications, and power generation. Two U.S. electronics manufacturers told us that the market growth estimates for China's electronics and computer markets are among the highest in the world. An aerospace company official indicated that the growth of China's burgeoning economy has led to a dramatic increase in the demand for air transportation in China. Demand for air transportation has grown by over 20 percent annually for the last 5 years.

Two U.S. companies told us that China's economic expansion creates opportunities for infrastructure development projects. For example, as the fastest-growing telecommunications market in Asia, China expects its spending for telecommunications products to increase to about $2 billion per year by 1996, according to a U.S. telecommunications company official. Another U.S. company official told us that China has the world's largest new market for power generation plants and equipment, an industry in which the United States is extremely competitive. With such impressive market opportunities, some U.S. companies said that they cannot afford not to be in China.

A second factor leading some U.S. companies to do business with China is the increasing pace of economic reform and liberalization. A U.S. telecommunications company representative told us that the 1992 U.S.-China Memorandum of Understanding (MOU) on market access was critical to his firm's decision to expand operations in China. The provision to ensure open and nondiscriminatory procurement practices for digital switching systems allowed this company to conclude a joint venture to manufacture telecommunications switches in China. According to a U.S. electronics company representative, China's continued efforts to improve the business environment and meet the requirements to join GATT have encouraged his company to expand its activities in China. The 1992 U.S.-China MOU on market access offers further encouragement, as it commits China to liberalize trade restrictions, including imports of computer equipment. One U.S. company official noted that China's efforts to decentralize decision-making are an additional attraction for U.S. companies.

Chapter 3

U.S. Government and International Efforts to Promote Trade and Investment in China

Although the U.S.-China trade relationship faces several important policy challenges, the U.S. government has continued its efforts to facilitate bilateral trade. USTR is monitoring the 1992 U.S.-China MOUs on market access and intellectual property and is participating in international negotiations on China's accession to GATT. The Department of Commerce is continuing its trade promotion programs in China. In response to a growing demand on the part of U.S. exporters, Eximbank increased its loans and guarantees for U.S. exports to China. In addition, the World Bank, the Asian Development Bank, and Japan's Overseas Economic Cooperation Fund are offering loans to support development projects in a variety of Chinese economic sectors, from agriculture to industry.

USTR Activities

USTR is monitoring China's compliance with the 1992 bilateral agreements on market access and protection of intellectual property rights and is working with the Chinese government to assist in the implementation of these agreements, according to USTR officials.[1] In addition, USTR officials said they consult regularly with U.S. business representatives to obtain their perspectives on China's trade practices. USTR also plays a key role in bilateral and multilateral negotiations to assess China's eligibility to join GATT. Further, USTR has begun negotiations with the Chinese government on opening up its service sector to greater foreign participation.

1992 Memoranda of Understanding on Market Access and Protection of Intellectual Property Rights

Among the most recent and significant steps China has taken to increase market access and improve its business climate were the two 1992 bilateral MOUs between the United States and China on market access and protection of intellectual property rights. USTR officials told us in December 1993 that China had acted to implement some of the provisions of these agreements, but that barriers to market access and infringements of intellectual property rights persist.

Market Access Agreement

In 1991, USTR identified China's four most significant trade barriers as the focus of an investigation mandated by Section 301 of the U.S. Trade Act of 1974.[2] These barriers were (1) import licensing requirements; (2) import prohibitions and quantitative restrictions; (3) technical barriers to trade such as standards, testing, and certification requirements; and (4) failure to publish laws, regulations, and administrative decisions related to imports and their sale and distribution in China.

---

[1] An intellectual property right is the ownership of the right to possess or otherwise use or dispose of products created by human ingenuity. Patents, copyrights, and trademarks are examples of intellectual property rights.

[2] Under Section 301 of the U.S. Trade Act of 1974, as amended, the President is required to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international agreement or is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce.

In October 1992, after a year-long investigation, the United States and China reached an agreement resolving the Section 301 investigation. Under the terms of the agreement, the government of China committed itself to (1) progressively eliminate import barriers between 1992 and 1997 including import licensing requirements, quotas, controls, and restrictions in many key U.S. export sectors; (2) eliminate the use of import substitution policies and measures;[3] (3) increase the transparency of its trade regime by, among other things, openly publishing all laws, regulations, and decrees that govern trade, and establishing a central repository for the publication of all trade regulations; (4) remove standards and testing requirements as barriers to trade, especially in the area of agricultural standards; and (5) significantly reduce tariffs on a variety of U.S. goods by the end of 1993.

According to USTR officials, China has taken steps to implement certain provisions of the market access MOU, but has not yet opened its markets to key U.S. exports as substantially as promised in the agreement. In some areas, USTR is awaiting future deadlines to evaluate China's compliance. USTR officials have expressed their commitment to closely monitor the agreement, to continue discussions with the Chinese government, and to take decisive action if China does not fulfill its commitments.

Intellectual Property Rights Agreement

In the January 1992 U.S.-China MOU on intellectual property rights, China committed itself to providing improved protection for intellectual property. Among the most important terms of the agreement, China pledged to (1) provide strong protection for U.S. copyright holders, including computer software and sound recordings; (2) join the Berne Convention and the Geneva Phonograms Convention,[4] (3) provide full product patent protection for pharmaceutical and agricultural chemical products, and (4) adopt legislation to protect trade secrets from unauthorized disclosure or use.

---

[3] China's import substitution practices have involved denying approval for certain imports if an equivalent local product is produced domestically, or conditioning import approvals on the transfer of foreign technologies into local manufacturing ventures.

[4] The full titles of these conventions are the Berne Convention for the Protection of Literary and Artistic Works and the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms.

BEST COPY AVAILABLE

According to USTR officials, China has taken some important steps to implement its commitments under the intellectual property rights agreement, but many intellectual property rights problems remain. On the positive side, China has joined the Berne Convention and the Geneva Phonograms Convention, issued regulations implementing the Berne Convention in China, and raised the level of protection for computer software. In addition, China has acted to redress weaknesses in its patent regime, including amending its patent law to extend protection for agricultural chemical and pharmaceutical products.

However, according to USTR officials, Chinese infringement on copyrighted works and patented products is still commonplace and largely unabated by Chinese government actions. China lacks an effective intellectual property rights enforcement agency and has not established laws to prosecute offenders. According to estimates by the International Intellectual Property Alliance, U.S. industries lost more than $415 million in 1992 as a result of copyright infringement in China. USTR officials stated that the absence of effective intellectual property rights protection is one of the greatest market access barriers for foreign companies in the recording, motion picture, and computer software industries. They said in June 1993 that USTR intended to hold continued consultations with China on enforcement of intellectual property rights, with the goal of reaching agreement on a strict enforcement regime.

U.S. Participation in Negotiations on China's Application to Join GATT

International negotiations on China's application to join GATT resumed in 1992 after a 3-year hiatus. U.S. business associations and many of the companies we spoke to expressed support for China's efforts to join GATT, provided that the contracting parties[8] negotiate an acceptable protocol of accession. Such a protocol would require China to adhere to GATT obligations normally applied to market economies.

China's GATT History

The then-Republic of China was an original member of GATT in 1948, but the nationalist government of Taiwan withdrew from GATT in 1950 after the Communist revolution. The People's Republic of China secured GATT observer status in 1982, 3 years after its Open Door Policy began, and since then has attended annual meetings as a nonvoting delegate. China subsequently applied for full GATT membership in 1986. The GATT Working Group on China met for the first time in 1987 to begin negotiating the terms under which China might eventually join GATT. China's GATT negotiations stalled in the spring of 1989 as China slowed its implementation of economic and trade reforms, recentralized its trade operations, and increased import barriers.

---

[8] "Contracting party" is the term used to refer to a country assuming obligations under GATT.

Status of Negotiations on China's GATT Accession

Negotiations on China's application to join GATT gained momentum in 1992, when it became apparent that China had resumed its trade and economic reform program. In addition, the successful negotiation of a bilateral MOU on market access in October 1992 gave GATT contracting parties renewed confidence in China's ability to meet GATT eligibility requirements. In this MOU, China agreed to allow greater market access for U.S. companies, and the United States agreed in turn to "staunchly support China's achievement of contracting party status to the GATT," provided that the contracting parties reach an acceptable "protocol."

The U.S. government is discussing provisions for China's protocol of accession within the context of a five-point framework, which would require China to (1) establish a single trade policy, so that GATT trading policies are applied equally in all regions, to all imports, and from all countries; (2) improve the transparency of its trade regulations and administration, including economic and trade data reporting; (3) demonstrate a commitment to eliminate nontariff barriers that conflict with GATT rules;[6] (4) commit to the establishment of a market-based price system; and (5) agree to a temporary special safeguard mechanism allowing contracting parties to protect their industries from excessive and unfair Chinese exports pending the completion of China's economic and trade reforms.

China's GATT representatives had indicated that they were prepared to negotiate on all issues of interest to the contracting parties, including a special safeguard mechanism, according to USTR officials in November 1993. In addition, China has taken steps to demonstrate its commitment to trade reforms compatible with GATT policies. For example, China reduced tariff levels on over 3,000 items, freed a number of controlled prices, and committed to unifying its multiple foreign exchange rates within 5 years.

However, USTR officials reported that several issues remain to be addressed before China's GATT accession negotiations can be concluded. Among the concerns expressed by the U.S. government and other contracting parties were (1) the continuing lack of transparency in China's trade regime, (2) the relationship between China's accession commitments and the implementation of Uruguay Round results,[7] and (3) the Chinese government's ability to enforce the commitments it makes when it joins GATT. According to USTR officials, China's implementation of MOUs with the United States on market access, protection of intellectual property rights, and exports of goods produced with prison labor will be a key factor in assessing the viability of similar GATT commitments.

---

[6] Nontariff barriers are government measures or policies other than tariffs, such as import quotas or foreign exchange controls, that impede or distort the flow of international commerce.

Another factor that has complicated China's negotiations to join GATT is the conflict between the United States and China over whether GATT membership should be accompanied by permanent, unconditional U.S. MFN trade status. China has pushed for unconditional MFN status consistent with GATT provisions.[8] However, the Jackson-Vanik amendment to the U.S. Trade Act of 1974 prohibits the United States from being able to offer permanent MFN tariff treatment to nonmarket economies, and instead, requires an annual review to renew MFN status for these countries. Thus, the U.S. government has told China that it will not be able to apply GATT formally to China after accession. China's accession to GATT would oblige the U.S. government to invoke GATT article 35, which allows contracting parties to opt out of MFN tariff schedules under certain circumstances. This provision can only be applied when a party enters GATT as a new member and when the two parties have not entered into tariff negotiations with one another.

U.S. Business Perspectives

Several U.S. business associations and individual companies we spoke to expressed support for China's efforts to join GATT. According to the National Association of Manufacturers, many of the difficulties U.S. firms face in doing business in China would be overcome if China were bound by GATT "disciplines." A spokesman for a U.S. company believes that GATT membership would increase pressure on China to "play by the rules" of international trade. An aerospace company executive commented that her company fully supports China's efforts to join GATT, provided that rules and safeguards are built into the protocol of accession to ensure that China is complying with both the letter and the spirit of GATT rules.

The U.S.-China Business Council has recommended that the U.S. government seek China's admission to GATT, as long as China's protocol of accession ensures (1) greater transparency of its trade regime, (2) elimination of the foreign exchange controls, (3) decontrol of state foreign trade corporations, (4) "national treatment" for all commercial enterprises in China,[9] and (5) tariff reductions for products and services in industries in which the United States is competitive.

---

[7] Launched in September 1986 in Punta del Este, Uruguay, and concluded in December 1993, the Uruguay Round of multilateral trade negotiations is the eighth negotiating round held under the auspices of GATT.

[8] Article I of GATT requires that each contracting party grant other contracting parties equal tariff treatment, or MFN status, for all traded goods.

Department of Commerce Activities

The Department of Commerce promotes U.S. exports to China through its co-chairmanship of the U.S.-China Joint Commission on Commerce and Trade (JCCT) and through the activities of USAFCS. JCCT was established in 1983 to provide a forum for high-level consideration of bilateral trade and investment issues and to serve as a vehicle for promoting commercial relations, according to Commerce Department reports. The former Bush administration suspended annual high-level JCCT meetings from June 1989 through November 1992 in response to the Chinese military crackdown in Tiananmen Square. In addition, cooperative programs sponsored by JCCT, such as a legal exchange program, were interrupted. However, U.S. embassy-based working groups met quarterly during this period to resolve business disputes regarding U.S.-China trade, investment, and protection of intellectual property rights. Higher-level JCCT meetings were reconvened in December 1992 as part of the former Secretary of Commerce's mission to China.

According to Department of Commerce reports, new JCCT initiatives include (1) facilitating the implementation of the 1992 U.S.-China market access and intellectual property rights MOUs; (2) negotiating an agreement on end-use checks on dual-use technology; (3) exploring the resumption of talks regarding a bilateral investment treaty; (4) establishing a business development working group to enhance U.S. export opportunities in China's energy, transportation, and telecommunications sectors; (5) renewing trade promotion efforts and trade events in China, including the legal and finance seminar programs; and (6) establishing a U.S.-China Business Center in Shenzhen.

USAFCS conducts numerous programs to support U.S. trade and investment activities in China. These activities include market analysis; U.S. government support of commercial programs, business counseling, and outreach; and trade promotion. Among its market analysis efforts, USAFCS develops an annual country marketing plan and regularly reports on China's commercial and economic environment. To support other U.S. government programs in China, USAFCS is providing information and assistance to visiting delegations from USTR, Eximbank, and other agencies.

---

[9] National treatment affords individuals and firms of foreign countries the same competitive opportunities, including market access, as are available to domestic parties.

572

USAFCS' business counseling and outreach activities include (1) arranging business appointments with key government and industry leaders, (2) providing sectoral and market information to U.S. business visitors, (3) assisting U.S. companies with dispute resolution, and (4) providing other services. In addition, USAFCS supports events to promote U.S. exports to China such as sponsoring catalogue shows and trade fairs.

Eximbank Activities

Eximbank opened its programs to China in 1981 and now provides a full spectrum of loans, guarantees, and insurance to U.S. companies exporting to China. Eximbank commitments to China reached a record high in fiscal year 1992—accounting for about 5 percent of its total loans, grants, and guarantees for that year.

Since China's 1989 military crackdown in Tiananmen Square, Eximbank operating guidance has required that three special conditions be met before individual loans and guarantees to China can be authorized. These conditions include (1) an assurance by financial institutions such as the Bank of China that the transaction is imminent and carries the full faith and credit of the Chinese government, (2) a determination by Eximbank that the U.S. export would be lost either because of officially supported foreign competition or lack of available financing, and (3) a requirement that the State Department provide human rights and political clearances for China.

In fiscal year 1992, Eximbank authorized its highest level of funding for China since the program was opened in 1981. Eximbank authorized $72 million in direct loans and grants and $330 million in guarantees in that year, for a total of about $402 million. This increased funding was largely the result of growing interest in the Chinese market among U.S. companies, combined with China's positive repayment record, according to Eximbank officials. They attributed China's positive repayment record to its ample foreign exchange reserves, high economic growth, and absence of balance of payments problems. They added that Eximbank interest rates for loans, and repayment terms for loans and guarantees, for China are the most favorable permitted by the Organization for Economic Cooperation and Development (OECD) agreement on export credits.[10]

Eximbank loans and guarantees to China cover a variety of industry sectors, ranging from engineering services to chemical-processing equipment to commercial aircraft. Among its largest transactions in China, Eximbank

---

[10] OECD is a forum for monitoring economic trends and coordinating economic policy among its 24 member countries, which include the industrialized free-market democracies of North America, Western Europe, and the Pacific Rim.

BEST COPY AVAILABLE

facilitated the lease/purchase of two McDonnell Douglas MD-11 aircraft by China Eastern Airlines in 1992 with guarantees of $91.4 million and $94.5 million, respectively.

International Lenders

The most important international lenders for U.S. companies in China are the World Bank; the Asian Development Bank; and the Overseas Economic Cooperation Fund, Japan's economic assistance program. The U.S. government has important voting power in the World Bank and ADB, based in part on the size of its capital contributions to these organizations. OECF is noteworthy because of the large volume of funding it provides. These organizations generally require international competitive bidding procedures for their China project tenders, and U.S. companies have won important contracts on projects funded by these donors.

World Bank

The International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA), channel financial resources for development assistance projects from industrialized countries to the developing world.[11] IBRD and IDA provide loans and credits for projects in China in a variety of sectors, such as power generation, transport, health, education, infrastructure, agriculture, and the environment. IBRD and IDA lending to China doubled from 1991 to 1993. In World Bank fiscal year 1991, the IBRD and IDA boards approved $1.6 billion in loans and credits for projects in China. In World Bank fiscal years 1992 and 1993, board approvals totalled $2.5 billion and $3.2 billion, respectively, according to the Treasury's Office of Multilateral Development Banks.

Further, a Treasury official told us that after the events of Tiananmen Square in June 1989, the United States and its Group of Seven (G-7) allies sharply reduced and redirected multilateral development bank lending to China.[12] There was no new World Bank lending to China from June 1989 to February 1990. From February 1990 until July 1990, the United States and its G-7 allies supported a gradual resumption of World Bank lending to China for projects that met basic human needs. In July 1990 at the G-7 Houston Summit, participants agreed to continue World Bank lending to support basic human needs, and to consider other loans to China that would contribute to economic reform and address environmental concerns. Since that time, other donor governments have supported the expansion of World Bank lending beyond basic human needs projects on the basis that such lending may contribute to China's development, stability, and progressive reform. In contrast, U.S. voting policy on World Bank loans to China remains unchanged, and the United States continues to oppose loans to China that do not meet the basic human needs of the Chinese people. U.S. companies, however, are eligible to compete for all contracts financed by the World Bank Group in China.

---

[11] The World Bank Group includes IBRD and its affiliate, IDA. IBRD has two other affiliates—IFC and the Multilateral Investment Guarantee Agency.

[12] G-7 refers to the seven major economic powers (Canada, France, Germany, Great Britain, Italy, Japan, and the United States) whose finance ministers seek to promote balanced economic growth and stability among exchange rates.

Despite U.S. voting policy on World Bank lending to China, Treasury officials believe U.S. companies have been successful in the competition for procurement in IBRD- and IDA-financed contracts in China. The administration has analyzed World Bank data on procurement disbursement in fiscal years 1988-92 for IBRD and IDA China projects. During this 5-year period, procurement disbursements on projects in China totalled $5.3 billion, of which $3 billion (or 57 percent) were paid to foreign addressees/suppliers, and $2.3 billion (or 43 percent) were paid to local addressees/suppliers within China. Of these foreign disbursements (averaged over the 5-year period), two-thirds were to companies from six industrialized countries including France, Germany, Italy, Japan, the United Kingdom, and the United States. Of the disbursements to addressees in these six countries, payments to U.S. addressees ranked first (27 percent), followed by Japan (25 percent), and Germany (21 percent).[10] For U.S. companies, the key sectors were power, education, primary energy development, agricultural and rural development, and industry.

The mission of IFC is to promote private sector growth in developing countries by providing loans and capital for this purpose. According to IFC officials, the rapid growth in China's nonstate sector has led IFC to actively seek China projects for which it can provide financial resources. IFC has invested approximately $50 million in China since 1985, including $29.4 million in a joint venture to produce bicycles and $18.2 million in a joint venture to produce automobiles. IFC is also establishing a joint venture consulting firm to assist Chinese state-owned enterprises in the process of privatization. In addition, it is considering new projects in a variety of sectors, including glass, chemicals, electronics, automobiles, and power generation. The IFC program in China is growing quickly. IFC officials reported that IFC expects to increase its exposure to $150 million in 1993, and to $450 million in 1994.

---

[10] These data must be interpreted very cautiously. The data represent IBRD and IDA procurement disbursements according to addressees where payment was made. For example, payments made to a U.S.-owned company address in France would be recorded as disbursements to France rather than to the United States.

Asian Development Bank

ADB, comprised of 52 member countries, is engaged in promoting the economic and social progress of its developing member countries in the Asian and Pacific region. The U.S. government is the second largest holder of capital stock in ADB after Japan, and U.S. firms are eligible to bid on ADB contracts. ADB supports the Chinese government's strategy for economic growth as stated in its Eighth Five-Year Plan (1991-95). ADB projects in China have emphasized efficiency improvement, environmental protection, natural resource conservation, and poverty reduction. In 1992, ADB financed projects in several key sectors, including transportation, communications, and industry. In recent years, ADB loan commitments for projects in China have grown substantially. For example, in 1992, ADB approved $903 million in loans to China, up from $496 million in 1991—an increase of 82 percent. The loan approvals for 1991 represented an almost tenfold increase from the 1990 level of $50 million.

Japan's Overseas Economic Cooperation Fund

In addition to the multilateral development banks, OECF is a further source of development funding worth noting because of its large size and openness to foreign bidders. OECF, a development finance institution of the Japanese government, assists the governments of developing countries in building social and economic infrastructure by providing low-interest, long-term loans. In 1990 and 1991, OECF loan commitments to China were mainly for economic infrastructure projects, such as transportation, electric power, telecommunications, and agriculture. Loan commitments to China (including loans to the private sector) in fiscal year 1991 were about $958 million.

OECF also provides financial assistance in the form of concessional (below-market interest rate) loans and/or equity investments to private sector companies for projects that contribute, for example, to economic development and increased employment. OECF reported that in 1991, 90 percent of OECF loans were open to any foreign company under international competitive bidding procedures. According to the China Business Review, OECF projects could present significant opportunities for U.S. companies in sectors where they are competitive, if U.S. companies pursue them more actively.

Chapter 4

U.S. Government Policies That May Decrease U.S. Business Opportunities in China

U.S. companies, eager to participate in China's growing market, have been expanding their sales efforts and operations in China. However, certain U.S. government policies designed to address concerns about China's human rights, trade, and weapons proliferation practices may prevent U.S. companies from being able to more fully realize the business opportunities associated with China's economic growth and development. For example, the confidence of U.S. companies in their ability to do business in China is affected by their uncertainty over whether the U.S. government will renew China's MFN trade status, according to U.S. business associations and companies. In addition, some U.S. business associations and companies have expressed concern about export control regulations for products sold to China and about insufficient U.S. government financing for trade and investment activities in China. U.S. government policymakers continue to grapple with the challenge of balancing the U.S.' political, security, and economic interests in China.

Debate Over Renewal of China's MFN Trade Status

Since 1990, congressional decision-making on whether to disapprove the President's annual recommendation to extend China's MFN benefits has provoked intense debate among U.S. policymakers and affected interest groups. Those who favor revoking or placing conditions on China's MFN status generally argue that the United States should use its economic leverage to pressure China to improve its behavior in such areas as human rights, trade, and nonproliferation of weapons. Those who favor maintaining China's MFN status contend that economic engagement with China is not only in the commercial interest of the United States, but also offers the best prospects for political liberalization in China and for Chinese cooperation in global security, environmental, and other issues. In May 1993, the President issued an executive order extending China's MFN status for 1 year (July 3, 1993-July 2, 1994) with renewal thereafter subject to certain conditions relating to China's human rights practices.

China's MFN History

In 1979, the United States and China signed a bilateral trade agreement providing mutual MFN benefits. The agreement took effect in 1980. Because China is a non-market-economy country, MFN status was granted to China subject to the conditions of the Jackson-Vanik amendment to the U.S. Trade Act of 1974. The Jackson-Vanik amendment allows an affected country to receive MFN status only if the President determines that the country permits free and unrestricted emigration. The President may recommend renewal of the waiver for successive 12-month periods if he determines that further extensions will substantially promote the

577

BEST COPY AVAILABLE

objectives of the Jackson-Vanik amendment. Any recommendations for further waiver by the President must be made at least 30 calendar days before the previous year's waiver authority expires (i.e., by no later than June 3).

Congress has up to 60 calendar days following the expiration on July 3 of that waiver authority (i.e., by no later than September 3) to pass a joint resolution disapproving a Jackson-Vanik waiver. In effect, then, Congress has 90 calendar days from the President's June 3 notification to consider the extension. Congress has an additional 15 legislative days to override any presidential veto of a resolution disapproving a waiver extension, beginning the date that the veto message is received.

Since the Chinese government's suppression of the Tiananmen Square demonstrations, Members of Congress have annually introduced, but not enacted, numerous bills that would either terminate or place conditions on China's MFN status.[1] These conditions have related primarily to China's human rights policies, trade practices, and adherence to international weapons nonproliferation guidelines.

The President issued an executive order in May 1993 providing for extension of China's MFN status until July 1994, with renewal thereafter subject to certain conditions relating to China's human rights practices. According to the executive order, the Secretary of State shall not recommend extension unless he or she determines that (1) extension will substantially promote the freedom of emigration objectives of the Jackson-Vanik amendment and (2) China is complying with the 1992 bilateral agreement between the United States and China concerning exports of goods made with prison labor. In making this recommendation, the Secretary of State is also required to determine whether China has demonstrated overall, significant progress in respecting human rights. Criteria by which such progress will be measured include, among other things, (1) adherence to the Universal Declaration of Human Rights, (2) release of and accounting for Chinese political and religious prisoners, and (3) protection for the religious and cultural heritage of Tibet. The executive order also commits the administration to pursue all legislative and executive actions to ensure that China abides by its agreements to follow fair trade practices and that China adheres to its weapons nonproliferation commitments.

---

[1] In 1992, two bills placing conditions of renewal of China's MFN status were passed by both the House and the Senate and subsequently vetoed by former President Bush. These vetoes were overridden by the House and upheld by the Senate.

Key Issues in the China MFN Debate

During the 12-month period following the issuance of the President's executive order, it is likely that arguments for renewing China's MFN status, placing conditions upon it, or revoking MFN status outright will continue to be debated among Members of Congress, the administration, the business community, and other interest groups. While various U.S. interest groups have expressed support for improving China's human rights and trade practices and increasing China's cooperation with international weapons nonproliferation efforts, policymakers disagree over how best to pursue these goals and to what extent they should be linked to China's MFN status.

Arguments for Placing Conditions on China's MFN Status

Those who favor revoking or placing conditions on China's MFN status argue that the United States should use its considerable economic leverage to promote improvements in China's policies in areas such as human rights, trade, and weapons nonproliferation. As one of China's largest export markets, the United States purchased 32 percent of China's exports in 1992. Losing U.S. MFN status would raise duties on Chinese products substantially, diminishing China's ability to provide certain products to the U.S. market at competitive prices. While it does not take a policy position, the Congressional Research Service reported that, based on 1991 trade and tariff data, the termination of China's MFN status would result in duty increases on 83 percent of all U.S. imports from China.[2] Proponents of linking China's MFN status to progress in human rights or other issues believe that China's stake in the U.S. market gives the Chinese government an incentive to improve its policies in order to preserve MFN tariff treatment.

Human Rights Concerns

Widespread congressional concern about China's human rights practices, especially since the military crackdown in Tiananmen Square, has prompted legislative proposals to link U.S. MFN treatment for China with progress in this area. Several prominent human rights organizations take issue with the notion held by some China policymakers that China's economic reform and modernization will naturally lead to political liberalization. Human Rights Watch, Asia, a division of Human Rights Watch,[3] cites evidence to suggest that even as China's economic reform efforts have picked up momentum in recent years, political repression has continued unabated. According to the Clinton administration and private human rights organizations, China's human rights policies remain repressive and fall far short of internationally accepted norms. In 1993 testimony before Congress, Human Rights Watch, Asia, stated that the Chinese government continues to suppress freedom of assembly, expression, and religion, and to deny international human rights groups access to labor camps, prisons, and other places of detention.

---

[2] Vladimir N. Pregelj, Most-Favored-Nation Status of the People's Republic of China, Congressional Research Service, The Library of Congress (Washington, D.C.: Oct. 1992), pp. 5-6.

[3] Human Rights Watch is the largest U.S.-based international human rights organization, composed of five regional organizations, including Human Rights Watch, Asia. It monitors the human rights practices of about 60 governments around the world and works to stop human rights abuses by generating political pressure on those governments.

Concerns About China's Trade Practices

Proponents of placing conditions on China's MFN status have also raised China's trade practices as a key issue. Some observers link the growing U.S. trade deficit with China in part to Chinese trade practices that unfairly limit market access for U.S. and other foreign products. They have expressed concern that the government of China continues to engage in unfair trade practices against the United States such as raising tariffs, charging discriminatory customs rates, failing to enforce intellectual property rights, and setting import quotas. In addition, they have complained about China's alleged illegal transshipment of textiles and other items to the United States through third countries, as well as exports of goods made with prison labor. China began to address these concerns in 1992 when it signed the U.S.-China MOUs on market access, intellectual property rights, and exports of goods made with prison labor. However, some congressional and administration officials have expressed skepticism about how well these agreements are being implemented and enforced.

Weapons Proliferation Concerns

Concerns about China's proliferation of weapons have been raised in the debate over China's MFN trade status. For example, some Members of Congress have suggested that, to receive MFN treatment, China should be required to demonstrate significant progress in adhering to the guidelines of the Missile Technology Control Regime (MTCR)[4] and complying with international agreements on sales of nuclear and chemical weapons technology. China increased its support for global nonproliferation initiatives in 1992 and 1993 with its accession to the Nuclear Nonproliferation Treaty,[5] its commitment to the guidelines of MTCR, and its signing of the Chemical Weapons Convention, according to the President's

---

[4] MTCR, established in 1987, is a set of export controls on certain types of equipment, software, and related technical data that could be used in the development and production of missiles capable of delivering nuclear weapons. These controls are intended to limit the global proliferation of such missiles. Adherents to MTCR are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Spain, the United Kingdom, and the United States.

[5] This treaty became effective in 1970 and was intended to limit the number of states with nuclear weapons to the United States, the Soviet Union, Great Britain, France, and China. Over 140 states have pledged not to acquire nuclear weapons and to accept the safeguards of the International Atomic Energy Agency over all their nuclear materials.

May 1993 report to Congress on China. However, reports of certain sensitive Chinese exports raise questions about China's compliance with these commitments. For example, the U.S. government determined in August 1993 that certain Chinese and Pakistani entities had engaged in transfers of missile technology from China to Pakistan. These actions put China in violation of its commitments under MTCR and led the U.S. government to impose sanctions requiring denial of new export licenses and U.S. government contracts related to certain munitions and dual-use items.[6]

Arguments for Renewing China's MFN Status Without Conditions

MFN Debate Creates Instability in Business Relationships

The great majority of the U.S. business associations and companies we contacted told us that the annual uncertainty surrounding China's MFN status potentially hinders their business activities in China. In a May 1993 letter to the President, 316 U.S. corporations and trade associations represented by the Business Coalition for U.S.-China Trade jointly expressed their view that "the persistent threat of MFN withdrawal does little more than create an unstable and excessively risky environment for U.S. companies considering trade and investment in China, and leaves China's booming economy to our competitors." According to one U.S. company executive we spoke with, this uncertainty precludes long-term business deals and makes strategic planning difficult. The annual MFN review process may also be a negative factor for U.S. companies in securing financing for business transactions in China from the international lending community, according to a recent report prepared by over 20 leading U.S. firms in the electric power and fossil fuel industry.[7] The U.S.-China Business Council and the National Association of Manufacturers affirmed the importance of a stable commercial environment for business planning and stressed that the need to make a politically charged decision about China's MFN status every spring creates an annual crisis for business people and diplomats alike.

---

[6] According to the State Department, U.S. law calls for the imposition of sanctions on foreign persons who knowingly transfer to a non-MTCR country MTCR items that contribute to development of missiles capable of carrying a payload of 500 kilograms a distance of 300 kilometers, or about 1,100 pounds over 190 miles. U.S. sanctions were imposed in August 1993 for a 2-year period, and affect items designated in an MTCR Annex such as certain electronic equipment, space launch equipment, and advanced computer technologies.

[7] U.S. Electric Power Mission to China (Washington, D.C.: Aug. 1993). This report was based on a June 1993 mission to China to promote the use of U.S. electric power technology and services. The mission included 24 U.S. companies and was sponsored by the U.S. Departments of Energy and Commerce.

Possible Chinese Retaliation If China Does Not Meet Conditions and MFN Status Is Revoked

U.S. business representatives have also highlighted the potential economic losses for U.S. companies were China to retaliate against a U.S. withdrawal of MFN trade benefits by raising its own tariffs or taking other measures to limit U.S. access to the Chinese market.[8] The Emergency Committee for American Trade[9] stated that China would be almost certain to retaliate against a U.S. withdrawal of MFN tariff treatment by raising Chinese tariffs and diverting its purchases to non-U.S. firms. Companies represented by the Business Coalition for U.S.-China Trade have expressed concern that placing administrative or legislative conditions on China's MFN status would put at risk the $7.5 billion worth of products they exported to China in 1992. Chinese retaliation could hurt U.S. companies' ability to compete not only in China but also in other markets, according to some U.S. business associations. For example, the National Association of Manufacturers fears that, in certain industries, such as aerospace, electronics, and machine tools, it would be nearly impossible for U.S. firms to be globally competitive if they were excluded from the Chinese market, because China is such an important and rapidly growing new market.

Potential Costs to the U.S. Economy If MFN Status Is Revoked

Advocates of maintaining unconditional MFN status for China also point out that U.S. consumers and workers would suffer if tariffs on Chinese imports were to increase dramatically. The International Business and Economic Research Corporation estimated that loss of China's MFN status could cost U.S. consumers $10 billion-$14 billion per year as a result of price increases for Chinese imports or their alternatives. The highest duty increases would be on consumer goods, such as shoes, clothing, electronic products, and toys, of which China is a significant U.S. supplier. For example, if China's MFN benefits were revoked, tariffs on silk apparel would rise from 6.9 percent to 65 percent, and tariffs on audio tape players would rise from 3.7 percent to 35 percent. U.S. importers and retailers relying on Chinese imports for their livelihood could be hurt, and employees of these enterprises would stand to lose their jobs.

---

[8] Some U.S. companies and business associations we contacted believe that Chinese retaliation against U.S. companies would be very likely.

[9] The Emergency Committee for American Trade is an organization of the heads of 65 large U.S. international business enterprises, with combined annual worldwide sales of about $1 trillion.

Effectiveness of Unilateral MFN Trade Sanctions Questioned

Some U.S. business, government, and academic observers have also questioned the effectiveness of U.S. trade sanctions against China if imposed in isolation. According to a State Department official, none of China's other trading partners intend to follow the United States in imposing higher tariffs on Chinese products. Although these countries may share the concerns of the United States regarding China's human rights, trade, and weapons proliferation practices, none of them link MFN treatment to progress in these areas. Thus, some observers express skepticism that a unilateral U.S. decision to revoke MFN tariff treatment for China would motivate any significant change in Chinese government policies. The fear expressed by two major U.S. business associations is that rather than change its internal policies, China might transfer its business to U.S. foreign competitors, at the expense of U.S. exporters and their employees.

Controls on Exports of Dual-Use Technology Restrict U.S. Sales to China in Some Sectors

The U.S. Department of Commerce controls and licenses exports and reexports of dual-use commodities (civilian items with military applications) and technical data. Under the legislative authority of the Export Administration Act of 1979 (P.L. 96-72), as amended, controls on these items are maintained for reasons of national security, foreign policy, or short supply. Within Commerce, the Bureau of Export Administration (BXA) oversees the regulation and enforcement of the Export Administration Act and is responsible for a wide range of policy matters relating to maintaining the vitality of the U.S. defense industrial base. Some export controls have been imposed in coordination with multilateral arrangements, such as the former Coordinating Committee on Multilateral Export Controls (COCOM);[10] others are imposed unilaterally; and some have aspects of each.

COCOM was established in 1949 to protect the strategic technology advantage of the United States and its allies. National security controls, developed and implemented in coordination with COCOM members, were designed to prevent the transfer of strategic items and technical data to "proscribed" destinations, such as China, Romania, Poland, and all of the former Soviet republics. In November 1993, representatives of the 17 COCOM member countries met to discuss proposals to terminate COCOM and to establish a new organization to coordinate the export of strategic goods. These nations set an April 1994 deadline to replace COCOM and agreed to invite Russia, China, and other former Communist Bloc countries to join the new arrangement. As of April 1994, COCOM was dismantled but no agreement was reached on a successor organization. Thus, it was unclear how any new arrangement would affect U.S. exports of dual-use technologies to China.

---

[10] COCOM membership included Australia, Belgium, Canada, Denmark, France, Germany, Greece, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Turkey, the United Kingdom, and the United States.

BXA maintains the Commerce Control List (CCL), which includes all items subject to Commerce Department export controls.[11] The number of commodities, technical data, and software listed on CCL was reduced by 50 percent in September 1991 as a result of COCOM liberalization efforts, according to BXA officials. The United States supported this liberalization in view of the changing Soviet strategic threat and the democratization of Eastern Europe. Further liberalization was announced in 1990 and 1994.

As of January 1994, the licensing policy toward China remained consistent with the policy set forth by President Bush and the Department of Commerce following the Tiananmen Square crisis, according to BXA officials. BXA reviews export license applications for China on a case-by-case basis for those items subject to controls as listed on CCL. While China benefits from the decontrols and relaxations adopted by COCOM for all proscribed destinations, COCOM did not adopt, and the United States did not support, any additional favorable treatment for exports to China after 1989.

Export license requests for China receive additional administrative review focused on possible contributions to nuclear, military, or police activities. The 1992 Export Administration Act regulations stipulate that certain commodities, data, and end-uses may require extended review or denial. Of particular concern, according to these regulations, are exports that would make a direct and significant contribution to nuclear weapons and their delivery systems, electronic and antisubmarine warfare, air superiority, power projection, or intelligence gathering.

The United States imposed certain unilateral sanctions after the 1989 military crackdown in Tiananmen Square. Presidential and legislatively mandated sanctions affecting export licenses included (1) suspension of all government-to-government military sales and commercial exports of weapons,[12] (2) suspension of activities involving nuclear energy cooperation, (3) suspension of export licenses for crime control and detection equipment, (4) opposition to talks within COCOM on liberalizing controls on high-technology exports to China,[13] and (5) continuation of suspension of any defense article on the U.S. munitions list.

---

[11] Published annually and continually updated, CCL is based primarily on COCOM controls, but also includes items controlled for foreign policy and short-supply reasons. CCL includes technologies in 10 general categories, but does not include those items exclusively controlled for export by other agencies of the U.S. government, such as arms, ammunition, and implements of war.

In August 1993, the Clinton administration announced additional sanctions after concluding that China had violated its MTCR commitments by shipping sensitive missile technology to Pakistan. The sanctions, detailed on page 43, affect an estimated $400 million to $500 million in sales of U.S.-built satellites and satellite components to China each year, according to a State Department spokesman.

U.S. Business Concerns

By their nature, export controls place restrictions on the ability of U.S. companies to ship certain goods and technologies abroad. Thus, it was not surprising that some of the U.S. government and private sector officials we contacted expressed concerns about the negative impact of export controls on U.S. sales to China. While they recognized the strategic necessity of export controls, some of the companies we contacted perceived the export control system as a key factor in limiting or discouraging their trade and investment activities in the China market. According to some U.S. government and private sector officials, U.S. manufacturers of high-technology products, such as computers, telecommunications equipment, and power generation equipment, were among those most affected by either COCOM controls or controls on exports to China mandated by unilateral sanctions.

A computer company official told us that COCOM controls limited her company's ability to sell mainframe computers and workstations in China. Another U.S. computer company estimated in 1993 that export controls could cost the company between $40 million and $70 million in sales over the next 2 years.

Some U.S. companies and business associations we contacted also complained that COCOM liberalization had failed to keep pace with the rapid development of new technologies, thus giving an advantage to

---

[12] On two occasions, the Bush administration granted waivers to this sanction, allowing the sale of four Boeing commercial jets to China, and granting export licenses for three U.S. communications satellites to be launched on Chinese launch vehicles.

[13] Under the terms of the 1992 U.S.-China MOU on market access, the U.S. government pledged to pursue liberalization of some COCOM restrictions, including those for China. According to the MOU, the U.S. government, in concert with COCOM, is considering liberalized treatment of computers and has agreed to liberalize controls on telecommunications exports.

BEST COPY AVAILABLE

non-COCOM members. For example, a telecommunications company official told us that COCOM still restricted exports of certain telecommunications products that were 10 years old and ready to go out of production. Such products, he said, could now be easily obtained from non-COCOM members like India and Israel. Another official from this same company reported in June 1993 that COCOM continued to ban the export of high-speed telecommunications switching equipment to China, despite evidence to suggest that China is now able to manufacture this equipment locally. The official stated that by the end of 1993, his company would have lost $110 million in potential sales due to outdated export controls on telecommunications equipment. A computer company official told us that it was difficult for her company to design a workstation that stayed within COCOM export control limits for the Chinese market because the technology is continually advancing. Meanwhile, computer producers in India, Taiwan, and South Korea who are not bound by COCOM restrictions—or companies that continue to produce lower-techology workstations—could gain an advantage in this market. In response to complaints of this nature, the U.S.-China Business Council advocated that the U.S. government press its COCOM allies to support removal or relaxation of unnecessary export controls.

Export controls mandated by unilateral U.S. sanctions also limit U.S. exports to China. According to an energy products manufacturer, sanctions-related export controls on components used to build and operate nuclear power plants prevent U.S. companies from being able to take advantage of China's huge market for nuclear power generation equipment. The U.S.-China Business Council estimated that U.S. sanctions could cost U.S. companies roughly $16 billion in lost nuclear power plant equipment sales over the next 15 years, while competitors from France, Russia, Japan, and Switzerland are unencumbered by these sanctions. In their recent report, the members of the 1993 U.S. Electric Power Mission to China recommended that the U.S. government review current policy on the export of nuclear technologies associated with the production of electric power.

Commerce Department officials told us that U.S. industry has generally expressed more concern about unilateral restrictions on exports to China than about multilateral controls mandated by COCOM. Unilateral controls tend to have a more negative impact on U.S. competitiveness, since other countries that are major competitors may not impose the same restrictions. For example, the 1991 U.S. government prohibition against satellite sales to China allowed a French company to gain an advantage in this market.

In August 1993 testimony before Congress, the Secretary of Commerce said that while export controls serve legitimate security and foreign policy objectives, the current system is so unwieldy and bureaucratic that it is a major impediment to doing business. He said that based on ongoing interagency and private sector studies, he expected to receive recommendations to (1) streamline the administrative processing of licenses to be more timely, transparent, and consistent; (2) minimize duplication and delay; (3) provide for prompt resolution of disputes; and (4) liberalize controls on goods widely available.

Restrictions on U.S. Government Financing for Business Activities in China Put U.S. Companies at a Disadvantage Relative to Their Competitors

According to some U.S. government and private sector officials, restrictions on U.S. government financing for trade with and investment in China put U.S. companies at a disadvantage relative to companies whose governments provide greater financial support. While the Eximbank continued its lending programs to China after the Tiananmen Square events of 1989, both OPIC and TDA programs have been legislatively suspended since that time. In addition, some of the governments of major U.S. trade competitors have had active assistance and tied aid loan programs in China,[14] while the U.S. government provides no assistance funding for programs in China and generally discourages the use of tied aid financing.

OPIC and TDA Programs for China Have Been Suspended Since 1989

OPIC and TDA suspended their programs for China by administrative action within a few days of the June 1989 Tiananmen Square events. These suspensions were codified in February 1990 by section 902 of the Foreign Relations Authorization Act (P.L. 101-246) for fiscal years 1990-1991. According to the law, these programs shall not be reactivated unless the President reports to Congress either that (1) the government of China has made progress on a program of political reform throughout the country, including Tibet; or that (2) it is in the national interest of the United States to terminate these suspensions. An OPIC official said that his agency continues to receive periodic requests for its insurance, guarantees, and loan programs to support business activities in China. A TDA official told us that there is great demand in China for the types of infrastructure project planning activities that TDA normally funds. Several U.S. companies stated that the absence of U.S. government financing, risk insurance, and other support from OPIC and TDA limits their ability to win contracts in China when competing with other foreign companies whose governments provide greater support of this kind.

---

[14] "Tied aid" refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance.

Tied Aid Offered by Some Foreign Countries Has Put U.S. Companies at a Disadvantage When Competing for Projects in China

China is one of the world's major recipients of tied aid credit. In 1991, China received an estimated $2.3 billion in government-supported loans from Japan, Canada, West European countries, and other countries. Most of these funds were tied to the purchase of exports from the donor country, according to U.S. embassy reports from Beijing. These reports suggest that Japan, France, and Italy have been among the most active lenders to China in recent years. China has relied heavily on tied aid to finance its infrastructure and industrial development, according to a May 1993 U.S.-China Business Council publication.

In contrast to many of its trade competitors, the U.S. government has generally discouraged the use of tied aid.[18] The basis for this policy, according to a Treasury official, is that tied aid can distort funds allocation in developing countries towards capital-intensive projects and shift supply from more efficient producers to less efficient producers with access to subsidized financing. Therefore, the United States has authorized the use of tied aid to China in only one instance, when the Eximbank made a $10 million loan in 1990 from its "war chest" to support U.S. bids against tied aid competition for a Chinese subway system project.[19]

U.S. government and private sector officials have suggested that tied aid packages offered by some OECD member countries made it difficult for companies whose governments do not offer such loan programs, including U.S. companies, to compete for capital projects in China. According to the U.S.-China Business Council publication, the influx of tied aid into China during the late 1980s sharply reduced the U.S. market share in some Chinese sectors in which U.S. companies had previously been very competitive, such as power generation.

Over the last decade, the U.S. government has attempted to restrict the use of trade-distorting tied aid through a series of international agreements with other OECD member governments. Most recently, in an effort to more effectively limit the trade distortions associated with the use of tied aid, 22 of the 24 OECD member governments developed new guidelines on the extension of tied aid, which came into effect in February 1992.[17] The new guidelines generally prohibit (1) the use of tied aid for projects in countries known as "better-off developing countries," whose annual per capita income exceeded $2,465 in 1990; and (2) the use of tied aid and mixed credits for commercially viable projects, meaning that tied aid may only be extended to projects that are either unable to generate cash flow sufficient to cover the project's operating costs or cannot be financed by the private market or official export credits.[18] In addition, the new guidelines strengthened OECD notification and consultation procedures. An Eximbank official stressed that the goal of the 1992 agreement is not necessarily to reduce the use of tied aid, but to channel tied aid toward developmental needs such as rural telecommunications or bridge construction projects that are not commercially viable.

---

[18] In February 1994, the Eximbank released a draft of its tied aid policies and procedures, signaling a more proactive approach to tied aid. As part of this effort, the Eximbank is administering a new tied aid capital projects fund.

[19] Congress authorized the Eximbank's "war chest" in 1986 to provide concessional loans for U.S. firms when there is "reasonable proof that concessional foreign financing is being offered to a foreign competitor for a U.S. export sale."

It is still too early to be able to fully assess the impact of the new guidelines on U.S. business endeavors in China. However, U.S. embassy officials in Beijing gave optimistic reports about the agreement, noting that competition for projects is now conducted more clearly on the basis of price and quality, with financing offered at OECD-approved export credit rates. They reported that U.S. companies in industries such as petrochemicals and telecommunications appear to face less tied aid competition than in the past. The U.S.-China Business Council publication concluded that if the commercial viability provisions of the new guidelines are implemented faithfully, U.S. companies stand to gain in sectors such as power generation and telecommunications.

---

[17] The agreement, formally known as the "Arrangement on Guidelines for Officially Supported Export Credits," was signed by Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, the United States, and the 12 members of the European Union.

[18] These limitations do not apply to projects in least-developed countries, such as Afghanistan and Bangladesh.

Balancing U.S. Policy Objectives in China

China's growing role in global economic and political affairs, the wide range of U.S. economic, human rights, and security interests in China, and the high potential economic and political costs of ending China's MFN trade status have prompted calls for a reexamination of current U.S. MFN renewal policies. In light of these concerns, some U.S. policymakers are questioning whether an instrument as central to the U.S.-China relationship as MFN status is appropriate for pursuing any individual objective.

Because China's role in world affairs is expanding, China's policies will profoundly affect economic, military, and political events in the future. As discussed in this report, China is one of the world's fastest-growing major economies, offering opportunities for foreign trade and investment. It is an active participant in the U.N. Security Council and has a growing military force in the Asia-Pacific region. In addition, since China accounts for one-fifth of the world's population, its cooperation is crucial in addressing international problems such as environmental protection, population control, management of large-scale migration, public health, and drug trafficking.

At the same time, China's authoritarian political system and reported human rights abuses make a close U.S.-China relationship problematic. In recent months, the most visible U.S.-China bilateral issue has been China's human rights record. The United States has conditioned renewal of China's MFN privileges on China's progress in meeting human rights conditions specified in the President's May 1993 executive order, as discussed in chapter 4 (see p. 40).

In addition to MFN status, the U.S. government has a variety of bilateral and multilateral tools available to promote its policy goals in China. With regard to promoting U.S. democratic values and respect for internationally recognized human rights principles in China, for example, government, academic, and private sector experts who participated in a recent Atlantic Council study on U.S.-China relations[1] have suggested such bilateral measures as (1) making greater use of channels at senior levels of the U.S. and Chinese governments through which the U.S. government can raise specific human rights concerns, (2) increasing program resources for Voice of America broadcasts in China and encouraging the Chinese government to end its efforts to jam these broadcasts, and (3) expanding educational and cultural exchanges with China.

---

[1] U.S.-China Relations at a Crossroads, Atlantic Council of the United States (Washington, D.C.: Feb. 1993).

Alternatively, an official of a major human rights organization monitoring conditions in China has proposed a graduated approach to linking MFN status with human rights progress. This official said that rather than facing the choice of either granting or revoking full MFN benefits for China, the U.S. government could recognize partial progress on human rights with the extension of partial MFN benefits.

To encourage improved Chinese human rights practices within a multilateral context, the Atlantic Council report and other observers have suggested that the U.S. government (1) reinforce its diplomatic efforts through international organizations such as the U.N. Human Rights Commission, (2) actively seek cooperation from U.S. allies for multilateral action, and (3) support ongoing activities of the International Committee of the Red Cross to monitor treatment of Chinese prisoners.

The U.S. government continues to employ bilateral and multilateral mechanisms to encourage Chinese cooperation with international nonproliferation and security efforts. The U.S. government lifted the suspension of high-level military contacts with China imposed after the Tiananmen Square events by sending the Assistant Secretary of Defense for Regional Security to meet with China's Defense Minister in November 1993. In addition, China has agreed in recent years to adhere to several conventions to control weapons proliferation, including the Nuclear Nonproliferation Treaty, MTCR, and the Chemical Weapons Convention. Where China has not lived up to its agreements, the United States has taken unilateral action on several occasions—most recently in imposing targeted sanctions related to China's violation of its MTCR commitments, as explained in chapter 4 (see pp. 42-3).

In the area of economic relations and trade, the U.S. government has achieved some success with bilateral programs and trade agreements. Among the more prominent examples of these activities, as discussed in chapter 3, are USTR investigations mandated by U.S. trade law that resulted in bilateral MOUs on market access and on protection of intellectual property rights in China (see pp. 28-30); active participation in international negotiations on China's application to join GATT (see pp. 31-3); and the establishment of bilateral commissions such as the Joint Commission on Commerce and Trade (see p. 34).

While the United States has on occasion successfully used the threat of targeted economic sanctions to pursue its economic agenda with China, the overall U.S. experience with economic sanctions has been mixed. In the past, sanctions have been most effective when applied multilaterally, while unilateral measures have been less successful in achieving policy goals.[8] While other countries have expressed concern about China's human rights practices, no other country has actively supported the United States in linking China's MFN benefits to progress in human rights. As discussed in chapter 4, some observers express skepticism that a unilateral U.S. decision to revoke MFN tariff treatment for China would motivate any significant change in Chinese government policies (see p. 45).

In addition, unilateral sanctions may carry high economic costs for the sanctioning country. For example, as noted in chapter 4, the possible withdrawal of China's MFN trade status could result in higher prices for U.S. consumers and jeopardize U.S. exports to and investments in China (see p. 44). In addition, the uncertainty created by the annual MFN renewal process for China causes great concern for U.S. companies that are attempting to forge long-term business relationships in China (see pp. 43-5).

As is recognized in public debate, the United States has a wide range of complex interests and objectives with regard to China. Chapter 1 highlighted some of the significant economic, human rights, and security interests and objectives that the U.S. government must attempt to balance as its policy towards China evolves (see pp. 12-13). In the last few years, U.S. concerns about human rights abuses in China have become an increasingly important factor in U.S. government decision-making on renewal of China's MFN privileges. MFN trade status is central to the U.S.-China relationship. A decision not to renew China's most-favored-nation status could damage U.S. foreign policy and security, as well as economic, interests in China. But what cannot be easily assessed is the potential for adverse effects on human rights conditions in China if most-favored-nation status is renewed without clear signs of overall significant progress as required by the President's May 1993 executive order. Equally unclear are the consequences of such an action for the credibility of future U.S. foreign policy initiatives. In leading up to the President's 1994 MFN renewal decision for China, policymakers in Congress and in the administration will have to carefully weigh the benefits and costs of various strategies to achieve the multiple U.S. objectives in China.

---

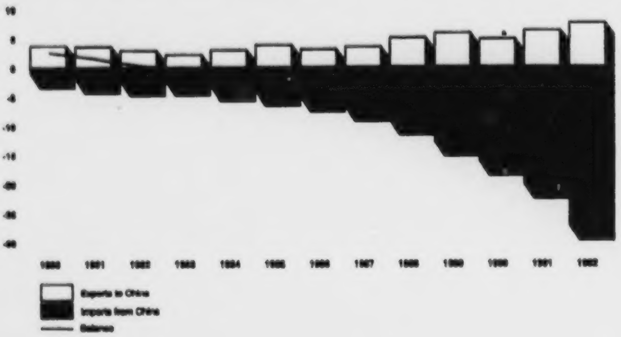
[8] See Economic Sanctions: Effectiveness as Tools of Foreign Policy (GAO/NSIAD-92-106, Feb. 19, 1992).

Appendix I

Discrepancies Between U.S. and Chinese Trade Statistics

During the last decade, the merchandise trade statistics produced by the United States and China have begun to show a large discrepancy. U.S. reported statistics indicate that the trade deficit with China increased sharply after 1986 when U.S. trade with China was roughly in balance (see fig. I.1). However, Chinese statistics show that U.S. exports to China exceeded U.S. imports from China during this period. Instead of showing a corresponding Chinese trade surplus, their reported statistics show they have had a deficit with the United States (see fig. I.2). The discrepancy between U.S. and Chinese statistics exceeded $20 billion in 1992.

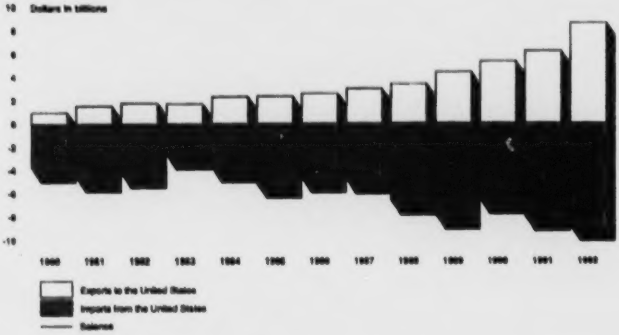
Figure I.1: Bilateral Trade Based on U.S. Statistics, 1980-92



Source: IMF, Direction of Trade Statistics Yearbook, 1987 and 1993.

BEST COPY AVAILABLE

Figure I.2: Bilateral Trade Based on Chinese Statistics, 1980-92



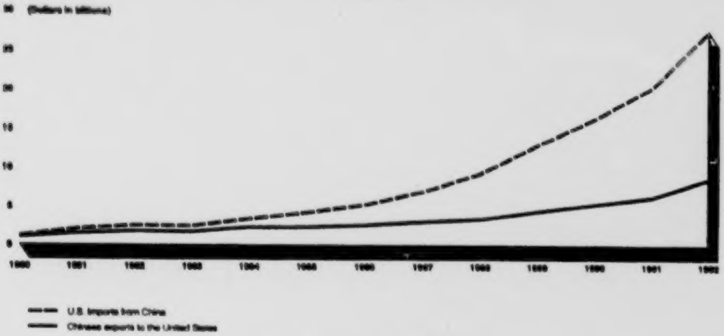
Source: IMF, Direction of Trade Statistics Yearbook, 1987 and 1993.

Most of this discrepancy can be attributed to the differences between exports to the United States reported by the Chinese government and imports to the United States as reported by the U.S. government. The figures from these two sources should be roughly similar since both sets of statistics represent the value of the same set of goods.[1] However, a large discrepancy developed in 1986 and increased in each subsequent year (see fig. I.3). In 1992, the discrepancy between U.S. imports from China and Chinese exports to the United States exceeded $18 billion.

---

[1] These figures normally differ due to transportation costs, timing, and other statistical factors. For example, export prices are normally collected at the port of export and, unlike import prices, do not include the cost of insurance and freight to the foreign port.

Figure I.3: U.S. Imports From China Compared to Chinese Exports to the United States, 1980-92

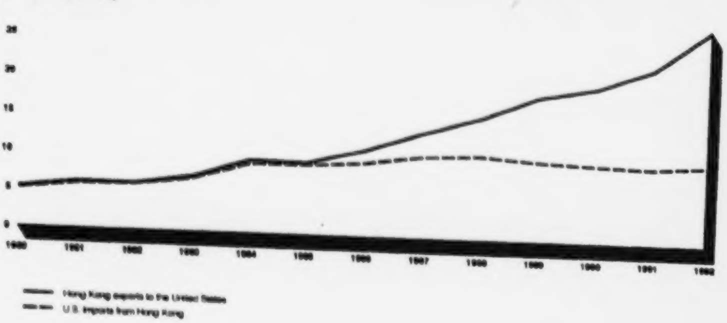


Source: IMF, Direction of Trade Statistics Yearbook, 1987 and 1993

The opposite trend is occurring in U.S. trade with Hong Kong. Beginning in 1986, U.S. imports from Hong Kong appear increasingly smaller than the amount of exports to the United States reported by Hong Kong (see fig. I.4).

BEST COPY AVAILABLE

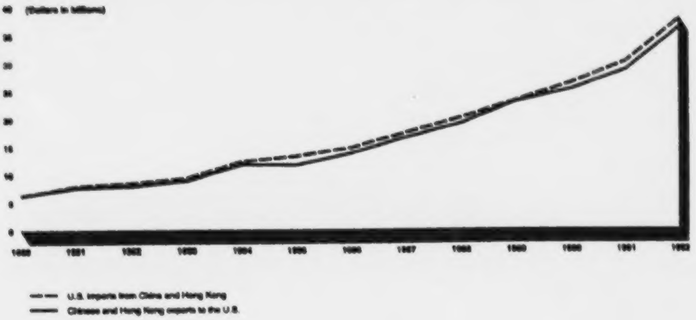
Figure I.4: Hong Kong Exports to the United States Compared to U.S. Imports From Hong Kong, 1980-92



Source: IMF, Direction of Trade Statistics Yearbook, 1987 and 1993.

However, if Chinese and Hong Kong exports to the United States as reported by the Chinese and Hong Kong governments are added together, they appear quite close to the level of U.S. imports from those two countries reported by the U.S. government (see fig. I.5).

Figure I.5: U.S. Imports From China and Hong Kong Compared to Exports From Those Two Nations, 1980-92



Source: IMF, Direction of Trade Statistics Yearbook, 1987 and 1993.

As figure I.5 indicates, the statistical discrepancy is due primarily to differences in U.S. and Chinese treatment of trade through Hong Kong. Fo statistical purposes, China considers Hong Kong the destination for much of its exported merchandise, even if the ultimate destination of the goods is the United States or some other nation. Goods shipped from China to Hong Kong are often classified as "reexports" by Hong Kong when shippe to their final destination.[2] Hong Kong defines reexports as products that have previously been imported into Hong Kong and that are reexported without having undergone a manufacturing process that has permanently changed the shape, nature, form, or utility of the product.[3] The United

---

[2] Hong Kong reported reexports originating from China of over $40 billion in 1991.

[3] Hong Kong distinguishes between reexports and transshipped goods. It defines transshipped goods as those that pass through the port on a through bill of lading or a through airway bill and does not include these in its official export or import statistics.

States considers these products to be Chinese exports unless some substantial transformation has occurred in Hong Kong.[4]

Many of these exports, while produced in China, are based on a contractual arrangement with a Hong Kong company. An example provided by the Hong Kong Government Information Services of a reexport illustrates the role of both countries in a typical export process. A Hong Kong company would design and market a toy doll and prepare molds for the manufacturing. These molds would be transferred to a factory in China, where the production, painting, and finishing of the dolls would take place. The whole assembly would then be sent back to Hong Kong for final inspection, packaging, and shipment to the ultimate destination.

China considers these items as exports to Hong Kong since services such as packaging, banking, shipping, and insurance are often carried out in Hong Kong. Upon completion of those additional services, Hong Kong classifies these products as reexports rather than "domestic" exports, but includes them in its export statistics. On the other hand, U.S. Customs and their counterparts in other nations who oversee imports would consider China as the origin of the products.

---

[4] Reexports are not included in the official U.S. export statistics.

Appendix II

China's Crude Oil Industry

While China has the world's tenth largest deposits of oil, its oil production has leveled off in recent years. China's oil production has not kept pace with growth in internal demand, resulting in a reduction in oil exports and an increase in imported oil. To meet the need for additional oil, China is encouraging foreign investment in the exploration and production of new oilfields located in the Tarim Basin (see fig. II.1). Further, China is using enhanced recovery technology to increase production in its older fields. Some U.S. oil companies have indicated that China's abundant oil reserves and China's history of conducting business with U.S. companies make investing there attractive. However, some of these same companies pointed out that the geological undesirability of the tracts offered for foreign exploration and production discourage investment in China's petroleum sector. U.S. oil company officials also pointed out that China's State Council, which has overall responsibility for the oil industry, offers less favorable terms to foreign investors than to government-owned corporations. Subordinate government corporations administer the varied functions of the Council.

China Has Large Oil Reserves

China ranks tenth in the world in proven reserves.[1] These deposits, located both offshore and onshore, are estimated to be about 24 billion barrels of oil. As shown in figure II.1, the offshore oil deposits are located in the East and South China Seas. The onshore oil deposits include China's oldest producing oilfields and are located in the northeast region.

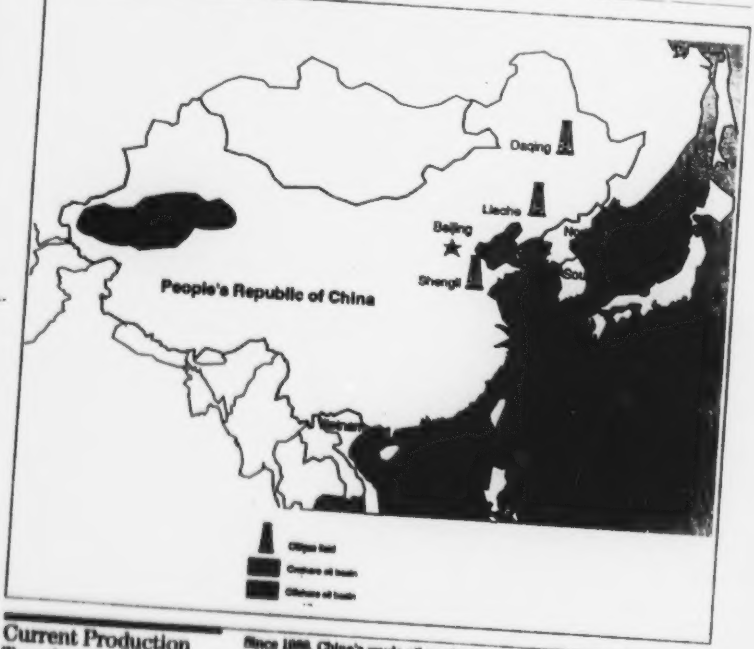
In addition, China has large, untapped, onshore oil deposits in the Tarim Basin, which is located in the uppermost western corner of the country. Estimates of the amount of oil in this region vary. However, a conservative estimate made by the East-West Center puts the amount of oil deposits at about 70 billion barrels.[2] Although the government has known about the potential oil deposits in the Tarim Basin for several decades, to date it has not had the financial resources to develop the region.

---

[1] International Energy Outlook [illegible], U.S. Department of Energy, Energy Information Administration (Washington, D.C.: U.S. Government Printing Office, Apr. [illegible]).

[2] The East-West Center is located in Honolulu, Hawaii. It is a center for cultural and technical interchange between the East and the West. The center is a national educational institution established by the U.S. Congress and incorporated by the State of Hawaii. Its energy program conducts research on China.

Figure II.1: Major Chinese Oil/Gas Fields and Tarim Basin


Daqing
Liaoho
Beijing
Shengli
No
Sou
People's Republic of China
Vietnam
Oil/gas field
Onshore oil basin
Offshore oil basin

Current Production Trends

Since 1988, China's crude oil production has remained level at about 2.8 million barrels per day (b/d). Between 1980 and 1988, oil production increased from 2.1 million b/d to 2.8 million b/d. According to officials at the

BEST COPY AVAILABLE

U.S. Department of Energy (DOE) and the East-West Center, China has been unable to increase its oil production beyond 2.8 million b/d because of its aging oilfields and the absence of adequate capital financing.

Aging Oilfields and Inadequate Capital Financing Hinder Production

Accounting for 75 percent of total 1990 production, Daqing, Shengli, and Liaohe are China's major producing oilfields and are located in the northeastern region of the country. Although the Chinese have made efforts to increase oil production, this production has leveled off in these fields. Crude oil production began at Daqing in 1960. In 1962, Shengli began production and was followed by Liaohe, which began operation in 1970. In 1970, these fields produced a combined 446,000 b/d. Between 1980 and 1990, production in these fields increased by about 40 percent, from 1.5 million b/d to 2.1 million b/d. However, since 1990, production at these fields has been steady at about 2.1 million b/d. According to an official at the East-West Center, these oilfields are China's largest and are projected to produce between 1.8 million b/d to 2 million b/d in 1995.

China hopes to increase production with the use of enhanced oil recovery technology and the exploitation of new oilfields. According to officials at the East-West Center and DOE, China's total oil production is expected to increase to 2.9 million b/d by 1995 and to 3.1 million b/d by the year 2000. Crude oil production rates for 1980 through 1992 are shown in table II.1.

Table II.1: Chinese Crude Oil Production, 1980-92

Barrels in millions per day

Year	—	Crude oil production	Annual percent change
1980		2.1	NA
1981		2.0	-4.76
1982		2.0	0
1983		2.1	5.00
1984		2.3	9.52
1985		2.4	4.35
1986		2.6	8.33
1987		2.7	3.85
1988		2.8	3.70
1989		2.8	0
1990		2.8	0
1991		2.8	0
1992		2.8	0

Legend

NA = Not applicable

Sources: China Energy Databook, 1992, Lawrence Berkeley Laboratory, Berkeley, California, and 1991 and 1992 production data provided by the East-West Center, Honolulu, Hawaii.

China's Oil Exports Have Declined Overall

Between 1985 and 1992, exports of crude oil accounted for a significant but declining share of Chinese production—from 24 to 15 percent overall. China's crude oil exports reached a high in 1985 of about 610,000 b/d and steadily declined to about 430,000 b/d in 1992, a decrease of about 30 percent. According to DOE, in 1990, the most recent year for which the following data are available, China ranked about seventeenth as a world oil exporter (500,000 b/d). The top three world oil exporters were Saudi Arabia, Iran, and the former Soviet Union. Daily exports from these countries were about 4.8 million b/d, 2.2 million b/d, and 2.2 million b/d, respectively.

The three largest export markets for Chinese crude oil are the United States, Japan, and Singapore. According to the East-West Center, exports to the United States in 1985, for example, totalled about 90,000 b/d, but by 1992 had declined by 20 percent, to about 72,000 b/d. China's exports to Singapore also declined by 74 percent, from about 170,000 b/d in 1985 to 45,000 b/d by 1992. On the other hand, exports to Japan between 1985 and 1992 increased by 14 percent, from 221,000 b/d to 252,000 b/d.

Petroleum exports are a major part of China's total foreign exchange earnings but have fallen in importance relative to other exports since 1985, when 26 percent of gross foreign exchange earnings came from petroleum. In 1992, oil exports accounted for only about 4 percent of China's total foreign exchange earnings, amounting to about $3.8 billion in foreign exchange revenues.

China's Increased Oil Consumption Pushes Demand for Oil Imports

China's rapid economic growth has caused an increase in internal demand for crude oil. Table II.2 shows China's crude oil consumption and imports for the period 1980 to 1992.

The major contributing factor to the increase in imports is the demand for oil by China's transportation sector. According to officials at DOE, there is a great demand for oil to operate motor vehicles (taxis, trucks, and buses). This sector's need for oil is projected to grow at about 7 percent annually between 1986 and the year 2000, according to the Petroleum Industry Research Foundation. Oil consumption for purposes other than transportation will also continue to increase. For example, the East-West Center estimates that as China's overall economy continues its robust growth, the demand for oil will increase, reaching 4.8 million b/d by the year 2000. Although more conservative in its estimate, DOE also projects an increase in China's oil consumption. It estimates demand will rise to 3.2 million b/d by the year 2000 and to 4 million b/d by 2010.

Energy experts at DOE and the East-West Center project that China's oil consumption will continue to increase and that by 1996 China will become a net importer of oil. Between 1980 and 1992, China's imports of crude oil increased from about 8,000 b/d to 227,000 b/d, while consumption of oil increased from 1.8 million b/d to 2.7 million b/d. Between 1991 and 1992, crude oil imports increased by 91 percent. Imports of crude oil are expected to reach about 400,000 b/d by 1996 and 1.2 million b/d by the year 2000. China imports crude oil mostly from neighboring countries such as Indonesia and Malaysia, but also from the Middle East. In 1991, for example, it imported about 50,000 b/d of crude oil from Oman and about 1,000 b/d from Iran.

Table II.2: Chinese Crude Oil Consumption and Imports, 1980-92

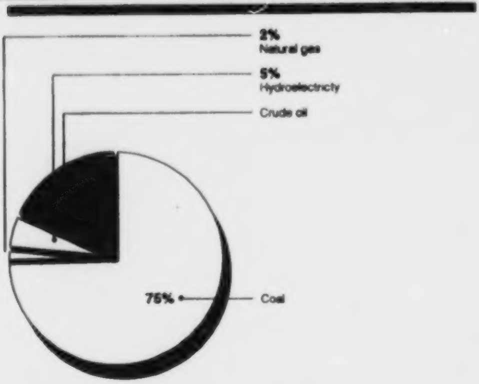
Barrels in millions per day

Year	Crude oil consumption	Crude oil imports
1980	1.8	0.008
1981	1.7	0.001
1982	1.7	0.013
1983	1.7	0.006
1984	1.7	0.005
1985	1.8	0.015
1986	2.0	0.022
1987	2.1	0.036
1988	2.2	0.017
1989	2.3	0.066
1990	2.3	0.059
1991	2.5	0.119
1992	2.7	0.227

Sources: China Energy Databook, 1992; 1991 and 1992 data were provided by the East-West Center.

Oil represented about 18 percent of China's 1992 overall energy consumption. Coal remains the primary source of energy. As depicted in figure II.2, coal represented about 75 percent of total energy consumption in 1992. Coal will continue to be China's primary source of energy into the next century. By 2010, for example, China will still rely on coal to meet about 78 percent of its energy needs, according to DOE. Notwithstanding the central importance of coal, oil is an important energy source and will remain so for some time into the future.

Figure II.2: China's Overall Energy Consumption, 1992



Source: Lawrence Berkeley Laboratory.

China Encourages Foreign Investments in the Petroleum Sector, but Impediments Remain

As China's rapid economic growth has increased its demand for oil, China has encouraged foreign investment in order to obtain the capital and technology needed to expand exploration and production. While exact information is not available on China's domestic investment in its oil industry, U.S. energy experts told us that China lacks the financial resources to increase investment in oil exploration and production activities. U.S. oil companies, however, have invested more than $1 billion in China's petroleum sector since 1978.

To encourage foreign investment in its oil industry, in early 1993 the Chinese government announced that it would allow foreign oil companies to bid competitively for exploration and production contracts in previously closed areas in northwest China and other onshore areas. Several U.S. oil companies have signed agreements with Chinese officials, and some are discussing potential exploration and production activities. In addition, China has made other reforms to encourage foreign investment. For example, it reduced the amount of oilfield royalties that foreign firms must pay from 12.5 percent for all oilfields to an adjustable rate for various production levels of the fields.[3]

We contacted 10 U.S.-owned oil companies based on a list provided by the American Petroleum Institute to obtain their perspectives on China's petroleum industry. All of the U.S. oil companies we interviewed are either currently investing or considering investing in China either in onshore or offshore oilfields within the next 5 years. Eight of the companies we interviewed said they had invested in China's oil industry beginning as early as 1978. As of December 1992, these oil companies had investments ranging from $10 million to $200 million or more each. Five of the companies individually had $200 million or more invested in China. Most of the oil companies we interviewed said they were primarily involved in exploration.

Factors That Promote U.S. Investment in China's Petroleum Sector

Officials of the 10 U.S. companies we contacted cited the following factors that make China's oil industry an attractive investment opportunity:

- China has abundant crude oil reserves (roughly equal to those of the United States).
- China's relatively unexplored Tarim Basin is believed to contain large potential reserves of crude oil.
- China's population and rapidly growing economy create a large and growing demand for energy, including oil.
- China has had about 15 years of experience in conducting business with U.S. oil companies.

Impediments to U.S. Investment in China's Petroleum Sector

U.S. oil companies we contacted, both those presently investing in China and those considering doing so, told us that the following factors discourage investment in China's oil sector:

- The companies' earlier onshore and offshore oil exploration and production efforts in China were not fully successful. China had opened several onshore tracts to foreign investors in 1985. Those companies investing in these tracts did not recover sufficient oil to make their investments profitable.

---

[3] For example, an oilfield with marginal production potential would pay a royalty rate lower than 12.5 percent to make production feasible. These changes do not apply to the Tarim Basin.

- China's proposed oil tracts in the Tarim Basin offered for bid are not considered the best geologically, and the basin's remote location makes exploration and transportation costly.
- China continues to control oil prices. Although China has paid international prices for oil to foreign companies producing offshore, some companies are not sure whether China will be willing to pay international market prices for oil produced by foreign companies onshore. If China does not pay international market prices, oil production and transportation may be too costly for foreign companies.
- China's past contract terms have not been adequate for continued foreign investment. Some oil company officials said that China needs to improve its contract terms in order to continue to attract foreign investment for the Tarim Basin.
- China's government gives preferential treatment to its government-owned corporations over foreign companies. Several oil company officials said they found it difficult to do business in China because foreign companies are not treated equally. For example, some U.S. oil companies consider the tracts offered for foreign investment in the Tarim Basin to be less geologically desirable than other tracts in that region.

Structure and Organization of China's Oil Industry

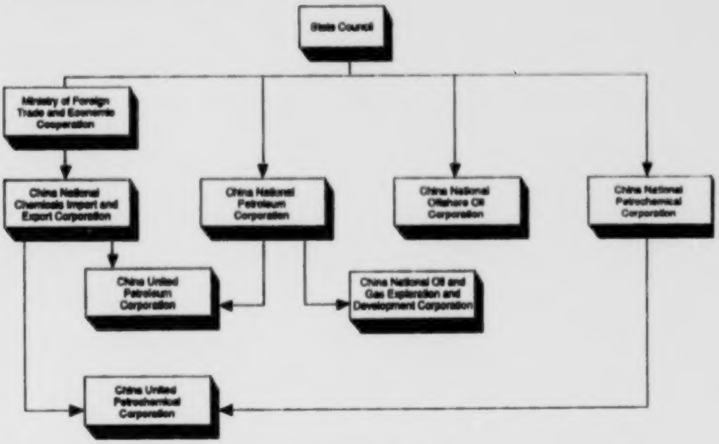
China's State Council has the overall responsibility for the Chinese oil industry, while subordinate government corporations under the Council administer its functions. In early 1993, these administering corporations' functions were as follows:

- The Ministry of Foreign Trade and Economic Cooperation is responsible for establishing and implementing foreign trade policy.
- The China National Petroleum Corporation is responsible for exploration and development of onshore and shallow water offshore oilfield areas, and natural gas fields. When China opened 11 southern provinces to foreign investors in 1985, China National Petroleum Corporation established the China National Oil and Gas Exploration and Development Corporation to negotiate and sign oil exploration contracts in the Tarim Basin and other oilfield areas.
- The China National Offshore Oil Corporation controls all deep offshore operations and manages foreign oil company investment in Chinese deep waters.
- The China National Petrochemical Corporation manages oil refining and marketing of refined products.

- The China National Chemicals Import and Export Corporation manages oil exporting and importing.

The Chinese government has also established two joint venture companies: (1) China United Petroleum Corporation (China Oil)—a joint venture between China National Chemicals Import and Export Corporation and China National Petroleum—and (2) China United Petrochemical Corporation—a joint venture oil trading company between China National Petrochemical Corporation and China National Chemicals Import and Export Corporation (see fig. II.3). Both China Oil and United Petrochemical Corporation handle oil trading, overseas investments, foreign investment in China's exploration and development sector, and Chinese investment abroad.

Figure II.3: Structure of Chinese Oil Industry


State Council
Ministry of Foreign Trade and Economic Cooperation
China National Chemicals Import and Export Corporation
China National Petroleum Corporation
China National Offshore Oil Corporation
China National Petrochemical Corporation
China United Petroleum Corporation
China National Oil and Gas Exploration and Development Corporation
China United Petrochemical Corporation

Sources: Petroleum Argus and East-West Center.

BEST COPY AVAILABLE

GAO Sources

Federal Government

Congressional Research Service
Council of Economic Advisers
Department of Commerce
Department of Energy
Department of State
Department of the Treasury
Office of the U.S. Trade Representative
Overseas Private Investment Corporation
Trade and Development Agency
U.S. Export-Import Bank
U.S. International Trade Commission

Private Sector

American Chamber of Commerce, Beijing
American Cyanamid Company
American Association of Exporters and Importers
AT&T
The Babcock & Wilcox Company
Battelle
The Boeing Company
Caterpillar, Inc.
Corning, Inc.
EG&G, Inc.
Eli Lilly & Co.
Emergency Committee for American Trade
General Electric Company
International Business and Economic Research Corp.
International Business Machines Corp.
McDonnell Douglas Corp.
Motorola, Inc.
National Association of Manufacturers
S.C. Johnson & Son, Inc.
SmithKline Beecham
The U.S.-China Business Council
U.S. Chamber of Commerce
Xerox Corp.

Multilateral Financial Institutions

Asian Development Bank
International Monetary Fund
The World Bank

United States General Accounting Office

GAO

Report to the Committee on Finance,
U.S. Senate, and the Committee on Ways
and Means, House of Representatives

April 1995

U.S.-CHINA TRADE

Implementation of the 1992 Prison Labor Memorandum of Understanding

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-257850

April 3, 1995

The Honorable Bob Packwood
Chairman
The Honorable Daniel P. Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable Bill Archer
Chairman
The Honorable Sam M. Gibbons
Ranking Minority Member
Committee on Ways and Means
House of Representatives

The People's Republic of China has one of the world's fastest growing economies and has rapidly become one of the U.S.' most important trading partners. In 1993, U.S. imports from China totaled $31.5 billion, and U.S. exports reached $8.8 billion. Since 1992, the United States and China have entered into several trade agreements to help resolve bilateral trade issues, such as U.S. market access in China and the U.S. prohibition on importing goods made with Chinese prison labor.[1] In May 1993, President Clinton signed executive order 12850. The executive order added a requirement for the administration to review China's compliance with the August 7, 1992, U.S.-China prison labor memorandum of understanding (MOU)[2] as part of the President's annual assessment of China's most-favored-nation (MFN) status in 1994.[3] (See app. I for details about China's commitments under the MOU.)

Because of ongoing congressional interest in U.S. trade with China, we self-initiated a review of recent issues regarding the U.S.-China MOU on prison labor. Specifically, our objectives were to describe (1) the U.S. Customs Service's assessment of China's compliance with the prison labor MOU and (2) the experience of the U.S. government in obtaining information sufficient to enforce the prohibition against goods made with Chinese prison labor since the MOU was signed. (See app. II for detailed information about U.S. laws and regulations prohibiting prison labor imports.)

---

[1] With certain exceptions, the importation of products made with prison labor is prohibited by section 307 of the Smoot-Hawley Tariff Act of 1930, as amended (19 U.S.C. 1307 (1988)).

[2] According to officials at the Department of State, an MOU is considered by the United States to be a binding international agreement.

[3] MFN is a commitment that a country will extend to another country the lowest tariff rates it applies to any third country.

Results in Brief

Although in 1993 Customs was concerned that the Chinese government had not sufficiently demonstrated a willingness to fulfill its responsibilities under the prison labor MOU in a timely and thorough manner, Customs told us that Chinese officials had shown more recent signs of cooperation. For example, in March 1994 China signed an implementation agreement that for the first time specified time frames and procedures for mutual compliance with the MOU. Nevertheless, while this agreement may support Customs' ability to obtain more timely responses to U.S. requests to visit prisons suspected of producing goods exported to the United States, Customs officials cited significant differences in China's prison system from those found in the United States, which may inhibit China's ability to comply with the MOU (e.g., incomplete or missing Chinese government records).

Customs officials said they had experienced recent successes in obtaining information from Chinese officials under the MOU sufficient to make administrative determinations that prison labor may have been involved in imported goods. However, officials at the Department of Justice told us they were concerned whether the MOU or any other agreement could provide Justice attorneys with the information necessary to defend Customs' decisions in an efficient and inexpensive manner because of the evidence that might be required in section 307 cases. Justice attorneys must produce such information before the U.S. Court of International Trade (CIT) to defend Customs' determinations to exclude products from entering the United States because they were found to be made with prison labor;[4] such Customs determinations are referred to as "findings." In December 1994, in its first case ever regarding a Customs determination that U.S. imports of Chinese goods were made with prison labor, CIT upheld an affirmative Customs finding (i.e., a finding that imported goods from China had been made with prison labor).[5] (See app. III for more information about this CIT case.) CIT based its decision to uphold the government on several factors involving evidence obtained from Chinese government documents. Justice officials believe these factors may not be present in future cases primarily because the information used as evidence is no longer published in China. Justice officials, therefore, still have concerns regarding the Department's ability to sustain Customs' findings in future cases that may arise under section 307.

---

[4] CIT, located in New York City, is composed of nine judges. The power of the court is exercised by a single judge, although under certain circumstances the Chief Judge may convene a panel. The court has jurisdiction over a broad range of civil actions involving international trade, including jurisdiction over section 307 cases. Final decisions of CIT can be appealed before the Court of Appeals for the Federal Circuit.

[5] China Diesel Imports, Inc. v. The United States, No. 94-185, slip op. at 13 (CIT, Dec. 7, 1994). This case involved imports of Chinese diesel engines allegedly made with prison labor. The original Customs determination in this case predated the MOU.

Background

Following the Chinese government's June 1989 crackdown on protesters in Tiananmen Square, President Bush and Congress began a debate about linking renewal of China's MFN status to improving human rights conditions in China. Among the trade-related issues raised in this debate was the U.S. government's concern about China's exporting goods made with prison labor to the United States. Although Customs officials have no authoritative estimate of such exports from China to the United States, they told us that the amount appears to be small.[6] The Bush administration determined that, in many cases of suspected violations, U.S. officials would need cooperation from law enforcement officials in China to gather sufficient evidence concerning Chinese prison facilities to enforce the section 307 prohibition.[7] As a result, the United States began negotiations with China in 1991 to reach an agreement to improve U.S. access to information needed to enforce section 307. In early August 1992, the United States and China signed the prison labor MOU providing for the exchange of information between both countries regarding their respective prison facilities. Specific terms for implementing the MOU were negotiated in a separate statement of cooperation signed on March 13, 1994.

The MOU provides for the United States and China to exchange information about prison facilities for the enforcement of their own laws. Not only does section 307 in U.S. law prohibit importing prison labor products, but the Chinese government prohibits exporting them as well. In general, the provisions of the MOU allow either country to request (1) respondent country investigations of facilities suspected by the requesting country to

---

[6] According to Customs, as of October 19, 1994, five cases had proceeded through the administrative process to final determination regarding illegal Chinese exports to the United States since 1991. Customs makes such determinations when probable cause exists that certain imported goods are subject to provisions of section 307 and are therefore prohibited from importation; these determinations must be approved by the Secretary of the Treasury. Two of the five final determinations remain in force, and two have been withdrawn. The fifth one resulted in a criminal conviction.

[7] For further information on China's prison system, see Foreign Affairs: Forced Labor in the People's Republic of China (GAO/NSIAD-90-244BR, July 23, 1990).

BEST COPY AVAILABLE

be exporting goods made with prison labor,[8] and (2) visits arranged by the respondent country to allow officials of the requesting country to visit suspected facilities to gather evidence to resolve allegations of trade in prison produced goods. Other provisions of the MOU allow either country to request available information and evidence from the respondent country in a form admissible in judicial or administrative proceedings of the requesting country.

The U.S. Customs Service and the Department of Justice are the primary agencies tasked with enforcing U.S. laws against importing goods made with prison labor. Customs investigates violations of prison labor laws and makes administrative determinations to exclude products from the United States that it determines are in violation of section 307. The Justice Department defends all Customs determinations challenged in U.S. courts, and prosecutes criminal cases brought under section 1761(a) of title 18, U.S. Code.[9] For example, Justice officials concluded their first case defending an affirmative Customs determination involving U.S. imports of Chinese products before CIT on December 7, 1994; however, Customs' determination of this case predated the MOU.

In addition to Customs and the Justice Department, the State Department plays an important negotiating and diplomatic role. Customs and the State Department cooperated to negotiate the prison labor MOU and, at certain times, the State Department worked with Customs in monitoring progress on the MOU. In 1993, Customs made investigating illegal importation of forced labor goods a priority under its 1993 national trade enforcement strategy and sent one full-time staff member to Beijing primarily to focus on prison labor issues.

On May 26, 1994, President Clinton decided to renew the granting of MFN status to China for another year. His decision was based on the State Department's positive assessment of China's emigration policies pursuant to the requirements of the Jackson-Vanik amendment to the Trade Act of

---

[8] In this report, a "respondent" country refers to the country answering a request to exercise options laid out in the MOU. A "requesting" country refers to the country that is seeking to use one of the MOU's options.

[9] On April 23, 1992, the E. W. Bliss Company of Hastings, MI, pleaded guilty to violating two counts of the criminal code for importing Chinese stamping machines made with prison labor. The E. W. Bliss Company was fined $75,000 and ordered to reexport the 31 stamping machines that had been seized by Customs. This case predated the MOU and is the only criminal case that Justice officials were aware of, in which an importer of Chinese goods made with prison labor was convicted and fined.

1974 (P.L. 93-618, 1975).[10] In addition, on reviewing progress under the prison labor MOU, the President determined that China was in compliance with the MOU's provisions. Furthermore, following the criteria established in his May 1993 executive order 12850, the President reviewed China's overall progress with various nonmandatory human rights conditions listed in that executive order. The President also said that compliance with the Jackson-Vanik legislative requirement would be the only condition specified for renewing China's MFN status during his administration.

Scope and Methodology

To develop information on Customs' assessment of China's compliance with the prison labor MOU, we interviewed officials from Customs as well as the State Department. We also reviewed reports and cables prepared by both Customs and the State Department that discussed prison labor issues regarding China; these documents generally corroborated the information we received from U.S. officials. To identify the experiences of Customs and the Justice Department regarding the enforcement of section 307, we met with headquarters and regional officials at the U.S. Customs Service and at the Department of Justice in Washington, D.C., and New York City. We also spoke with Customs officials at the U.S. embassy in Beijing, China, and the U.S. mission in Hong Kong. In addition, we discussed the issues raised by Customs and the Justice Department with officials at the State Department to obtain their views. We obtained the background and history of the prison labor MOU from documents prepared by the Library of Congress, Congressional Research Service, and the State Department.

In December 1994, we obtained oral comments on a draft of this report from various officials at the U.S. Customs Service and the Departments of Justice and State. Their comments are presented on pages 11 to 12. We did our work between November 1993 and December 1994 in accordance with generally accepted government auditing standards.

---

[10] The Jackson-Vanik amendment prohibits extending, or sets conditions upon the President's ability to extend, MFN status to nonmarket (or centrally planned) economies. The amendment allows such countries to receive MFN status only if the President determines that the country permits free and unrestricted emigration.

Assessing China's Compliance With the 1992 Prison Labor MOU

In testimony in the fall of 1993, Customs officials reported reaching an impasse concerning China's compliance with the letter and spirit of the August 1992 prison labor MOU.[11] The issue centered on the lack of timely and thorough responses from the Chinese government to U.S. requests for information and visits under the MOU.

First, according to Customs' testimony, the Chinese government had not provided timely responses to U.S. requests that China officially investigate suspected prison facilities and that China make arrangements for U.S. officials to visit those facilities. Customs reported that, as of September 1993, Chinese officials had responded in 16 of the 31 cases that the U.S. government requested investigation and had granted 1 of the 5 visitation requests made at that time.[12] Customs told us that by December 1993, Chinese officials had finally concluded investigation of all 31 alleged prison labor cases requested by the United States. However, Customs officials remained concerned that the amount of time spent for each Chinese investigation varied from case to case, and that they could not depend on a timely response.

Second, Customs' testimony also indicated that Chinese investigations did not provide the evidence necessary for Customs to resolve prison labor cases and that therefore U.S. visits to suspected prison facilities were required. Customs told us that much of the information provided by the 31 investigations that Chinese officials had concluded as of December 1993 was insufficient for Customs to resolve its cases. Consequently, Customs required additional information obtained through U.S. visitations in order to complete its work. However, Customs officials also encountered delays when requesting that the Chinese government arrange visits to Chinese facilities. According to Customs, as of December 1994, four of the original five visitation cases requested in 1992 were still pending.

While Chinese officials eventually responded to the initial 31 investigations, the U.S. government remained concerned about the implementation of the MOU. During a visit by the Secretary of State in March 1994, both countries signed another agreement, known as the "Statement of Cooperation on the Implementation of the Memorandum of Understanding Between the United States and China on Prohibiting Import and Export Trade in Prison Labor Products." This agreement specified time frames and procedures for investigating and visiting facilities in which goods were allegedly made with prison labor. The agreement did not specify terms for addressing the thoroughness of Chinese investigations cited by Customs officials. During the Secretary of State's trip to China, the United States presented another 20 requests for investigation.

---

[11] Testimony of George J. Weise, Commissioner, U.S. Customs Service, Before the House Foreign Affairs Subcommittee on International Economic Policy and Trade, September 9, 1993 (103rd Congress, 2nd session).

[12] The U.S. government may request official visits to Chinese facilities when it believes that initial Chinese investigations did not provide the information and evidence necessary to resolve specific cases.

Customs officials stated that significant differences in China's prison system from those found in the United States may limit China's ability to comply with the MOU. One primary factor affecting Customs' assessment of the Chinese government's compliance with the MOU is the current status of business and personnel records that are kept in China, including those in prison or detention facilities. The MOU states that

> "Upon request, each Party will furnish to the other Party available evidence and information regarding suspected violations of relevant laws and regulations in a form admissible in judicial or administrative proceedings of the other Party." (Emphasis added.)

However, Customs and State officials agreed that the standards for record keeping in Chinese prisons were not based on the same standards as those used in the United States. Customs officials reported that Chinese prison records they reviewed were often incomplete or missing altogether. Customs officials maintained that the Chinese government was still developing its ability to meet U.S. government information needs and to produce records of prison labor investigations in a more thorough manner. In addition, Customs officials stated that their ability to retrieve such documents was limited by China's lack of data processing methods and equipment commonly used to maintain these records in the United States.

Benefits, Problems, and Limitations Regarding U.S. Enforcement of Prison Labor Laws

MOU Useful but Not Fully Tested

According to Customs officials, the prison labor MOU has assisted Customs in obtaining information sufficient to make determinations under section

307 of the Smoot-Hawley Tariff Act of 1930, as amended. Customs officials told us that the MOU had been helpful in facilitating the gathering of information from China and had improved Customs' ability to bring some cases to closure. For example, since December 1993 Customs officials utilized information obtained through official visitations under the MOU to make determinations on two cases regarding imports of socks produced and of grapes harvested allegedly using Chinese prison labor. However, Customs officials concluded that there was no evidence of prison labor exports of these products to the United States and that there was thus no reason for Customs to exclude these items. Thus, according to Customs officials, it is too soon to tell whether the MOU will be useful to Customs in its efforts to collect incriminating evidence. Customs officials said it is untested whether the Chinese government will be as cooperative in providing evidence where exported goods have actually been manufactured with prison labor.

Justice's Concerns

Justice officials are concerned whether the MOU or any other agreement could provide Justice attorneys with the information they need in an efficient and inexpensive manner, if the Justice Department has to defend affirmative Customs' findings before CIT. The principal reason for the Justice Department's concern is that much of the information collected by Customs under the MOU, such as interviews with Chinese prisoners, may not be admissible at trial under U.S. law. Justice officials are concerned about the extent to which the U.S. government may have the burden of producing evidence that might be required to sustain Customs' findings in future section 307 cases.

According to Justice officials, in litigating section 307 cases the Department sought application of the standard prescribed for informal adjudicatory proceedings under the Administrative Procedures Act (APA).[13] Under APA, judicial review of agency adjudicatory decisions would usually be limited to the record compiled by the agency. For example, the review would essentially concern whether a reasonable basis existed for the Customs officer's determination at the time the finding was made. Therefore, CIT would not decide whether the agency's finding was factually correct, and the importer would not be allowed to introduce new evidence that had not been part of the record before Customs' determination. Most importantly, any evidence that was properly considered by Customs in reaching its determination would be admissible as part of the record in such a proceeding. Consequently, information gathered under the MOU, such as the testimony of U.S. officials who interviewed Chinese inmates, could be cited as part of the record in support of a Customs finding.

---

[13] 5 U.S.C. 706, 1988

If CIT did not apply the APA standard of review in section 307 cases, the alternative would be to conduct a de novo review. In a de novo review, CIT makes its own findings concerning whether the goods in question were prison labor exports; that is, CIT adjudicates all factual issues and the importer is able to introduce new evidence. The problem for the Justice Department in defending a Customs determination to exclude imports under section 307 is that in a trial de novo, the rules of evidence in some instances might not allow admission of certain evidence developed by Customs in making its determination. For example, the testimony of U.S. government witnesses who interviewed Chinese prison inmates might at times be precluded by the rule against hearsay.

Justice officials agreed that the scope of the present MOU was broad enough to cover the various kinds of evidence that might be required in a de novo proceeding. Such evidence might include commercial and personnel records of the factory in question; the live testimony of the prison official responsible for keeping such records; and, in some instances, a sample of the factory's product submitted for material analysis.

Nevertheless, Justice officials remained concerned about whether they would be able to successfully defend Customs' findings in a de novo proceeding for several reasons. For example:

- The Chinese government's willingness to adhere to the MOU when the United States seeks evidence—such as commercial or personnel records or a sample of a factory's product—is still untested.
- According to Justice officials, even if the Chinese government furnished all available evidence, the evidence required in a de novo proceeding under section 307 may often not exist. As noted earlier, the current system of maintaining business and personnel records in Chinese prisons is not based on the same standards as those used in the United States, according to Customs.
- Even where commercial and personnel records are maintained by prison factories in China, other aspects of the Chinese penal system may limit U.S. officials' ability to obtain information specific enough to defend a Customs determination under section 307. For example, just the fact that a prison has a factory does not necessarily mean that all goods

BEST COPY AVAILABLE

manufactured are those produced by prisoners.[14] Justice officials stated that this may pose a problem if it becomes necessary to establish that at least one factory worker—who was a prisoner on a particular date—worked on a specific product that was exported to the United States.

CIT Made Its First Determination on Imported Goods Made With Chinese Prison Labor

On December 7, 1994, in *China Diesel Imports, Inc. v. the United States*, CIT issued its first determination regarding imported goods that Customs had earlier determined were made with Chinese prison labor.[15] In November 1991, Customs excluded diesel engines manufactured in China under section 307 as goods made by convict or forced labor. The importer, China Diesel, Inc., filed suit before CIT seeking entry of the merchandise. In its preliminary opinion, issued in June 1994, CIT refused to apply the APA standard of review and held that it must adjudicate all factual issues in a trial *de novo*.[16] However, in its December 7, 1994, judgment, CIT held that the importer had the burden of proving that its diesel engines were not made, in whole or in part, with convict labor. Because CIT concluded that China Diesel, Inc., had not met this requirement, it upheld Custom's determination that the engines in question were convict made and found that Customs had properly excluded them from entry into the United States.

Despite the outcome of *China Diesel*, Justice officials still have concerns regarding their ability to gather evidence efficiently and inexpensively in section 307 cases under a *de novo* standard of review. Justice officials told us that the outcome of *China Diesel* may have depended on certain circumstances that may not be present in future cases. For example, in reaching its decision regarding the *China Diesel* case, CIT said that it had relied heavily upon various Chinese government and reference publications, which appeared to identify as a penal institution the facility in which the engines were manufactured. According to the CIT's decision, these documents alone would have sufficed to sustain Customs' determination. Justice officals said that this evidence is not likely to be available in future cases because the Chinese government has ceased identifying such penal facilities in its publications as of 1990.

---

[14] Evidentiary problems arise because in China, many former prisoners continue their employment in prison factories after their sentences have been completed. In addition, family members of prisoners are often employed in the same factories.

[15] No. 94-186, slip. op. (CIT, Dec. 7, 1994). The original Customs determination in this case predated the MOU.

[16] No. 94-90, slip. op. (CIT, June 2, 1994).

According to Justice officials, the problems in gathering evidence in China do not reflect any inadequacy in the scope of the MOU that was negotiated with the Chinese government. Rather, such difficulties reflect the differences in commercial practices and court standards between the two countries. Justice officials stated that these problems are typical of the obstacles faced by the U.S. government or private companies seeking evidence in some developing countries for the purposes of litigating related issues in the United States.

Justice officials therefore question whether the current MOU, or any other agreement negotiated with China, would be able to provide the evidence that might be required under a *de novo* review of section 307 cases. According to the Justice Department, Congress could address the problem by modifying section 307 to require that a judicial review be conducted under APA standards for informal adjudicatory proceedings. However, it would be very difficult to modify the MOU to accommodate the needs of a *de novo* review.

While Customs determinations and CIT reviews under section 307 are civil proceedings, title 18 provides criminal penalties for the knowing importation or transportation in interstate commerce of convict or prison-made goods.[17] If a case is brought before a criminal court, the standard of evidence required would be even greater than that in a *de novo* review in a civil proceeding. In U.S. criminal proceedings, Justice prosecutors would have to prove beyond a reasonable doubt that the importer knowingly transported the goods in question.

Agency Comments

We obtained oral comments on a draft of this report from officials at the U.S. Customs Service and the Departments of Justice and State. At the Customs Service, on December 1, 1994, the Director for Fraud Investigations and the Director of the Far East Desk, both in the Office of Enforcement; the Associate Chief Counsel for Enforcement in the Office of the Chief Counsel (regarding legal issues); and an Import Specialist in the Office of Trade Operations concurred with the information as presented. In general, Customs officials stated that this report was a well balanced and fair presentation of the prison labor MOU and of Customs' views on the MOU. They provided other minor suggestions that we incorporated where appropriate.

---

[17] Title 18 U.S.C. 1761(a).

On December 1, 1994, we discussed a draft of this report with a Senior Attorney of the General Litigation and Legal Advice Office in the Criminal Division at the Department of Justice. The draft was also reviewed by the Acting Chief of General Litigation and Legal Advice, Criminal Division. On December 8, 1994, we discussed a draft of this report with the Director of Commercial Litigation, Civil Division, at the Department of Justice. These Justice officials said that no agreement would ensure U.S. officials the ability to obtain information from China sufficient to withstand de novo judicial review in U.S. courts. We strengthened this point in the report. Overall, they agreed with the information in the report as presented and provided other minor suggestions that we incorporated where appropriate.

On December 8, 1994, we discussed a draft of this report with the Deputy Director of the Office of Chinese and Mongolian Affairs and a Senior Attorney in the Office of the Legal Adviser at the State Department. They viewed the MOU as adequate to assist the U.S. government in obtaining information from China and said that it was too early to determine the outcome of any U.S. judicial review. While the MOU has not been fully tested thus far, we believe the views of the Justice Department presented here provide useful insight in anticipating future enforcement concerns regarding China. State officials also suggested other minor changes, which we included in this report where appropriate.

We are sending copies of this report to the U.S. Trade Representative; the Secretaries of State, the Treasury, Commerce, and Justice; and the Commissioner of the U.S. Customs Service. We will make copies available to others upon request.

The major contributors to this report are listed in appendix IV. If you have any questions about this report, please call me on (202) 512-4812.

Allan I. Mendelowitz

Allan I. Mendelowitz, Managing Director
International Trade, Finance,
and Competitiveness

China's Commitment Under the 1992 Prison Labor MOU

On August 7, 1992, the United States and China concluded the prison labor MOU establishing four mutual commitments for exchanging information about respective U.S. and Chinese prison facilities.[1] Throughout these negotiations, the Chinese government was highly concerned that access to Chinese facilities would appear to violate China's sovereignty over its domestic affairs. Therefore, according to State Department documents, specific terms were included in the MOU to address this concern. In particular, it is the mutual nature of the MOU that allows officials of both countries the opportunity to obtain the information needed from the other country to satisfy domestic enforcement needs.

The MOU lists four broad provisions applicable to both countries. The terms of the MOU allow both countries to request

- investigations of facilities suspected by the requesting country to be exporting goods made with prison labor,
- information on law enforcement and whether these facilities are in compliance with the respondent country's regulations,
- evidence regarding suspected violations of the respondent country's laws and regulations in a form admissible in the requesting country's judicial or administrative proceedings, and
- visits arranged by the respondent country to allow officials of the requesting country to view suspected facilities.

After the MOU was signed, government officials in China and the United States became concerned about the terms for satisfactory implementation of the agreement. Customs officials told us that the lack of time frames and procedures for carrying out the prison labor MOU rendered the agreement difficult to administer. In addition, Chinese government officials were concerned, once information had been exchanged, that the United States was not promptly resolving pending cases. In late 1993, the Chinese government placed a hold on any further requests for visits and information until the United States had resolved those cases already opened. The United States and China continued to negotiate the specific terms for implementation 16 months after the MOU had been signed.

---

[1] To obtain assistance from other countries on customs-related matters, the United States may enter into a Customs mutual assistance agreement. According to Customs officials, such agreements provide a basis for cooperation and investigation in the areas of commercial fraud, narcotics trafficking, and export control. The assistance is provided for use in all proceedings, whether judicial, administrative, or investigative. However, according to State Department documents, during early negotiations in November 1991, representatives of the United States and China were unable to agree on such an arrangement as a framework for cooperation. According to Customs and State officials, no other country has signed an agreement similar to China's 1992 prison labor MOU with the United States. As of December 1994, Customs officials were working with Chinese officials to negotiate a Customs mutual assistance agreement.

On March 13, 1994, the United States and China signed a "Statement of Cooperation on the Implementation of the Memorandum of Understanding Between the United States and China on Prohibiting Import and Export Trade in Prison Labor Products." The statement of cooperation was intended to aid the timely investigation and visitation of prison labor facilities where goods were allegedly made with prison labor. The statement of cooperation acknowledged both countries' laws and regulations regarding importing and exporting products made with prison labor. It also recognized the good intentions and efforts already made by both countries in implementing the prison labor MOU.

The statement of cooperation then specified the following procedures to be followed under the MOU:

- "First, when one side provides the other side a request, based on specific information, to conduct investigations of suspected exports of prison labor products destined for the United States, the receiving side will provide the requesting side a comprehensive investigative report within 60 days of the receipt of the written request. At the same time, the requesting side will provide a concluding evaluation of the receiving side's investigative report within 60 days of receipt of the report.
- "Second, if the United States Government, in order to resolve specific outstanding cases, requests a visit to a suspected facility, the Chinese Government will, in conformity with Chinese laws and regulations and in accordance with the MOU, arrange for responsible United States diplomatic mission officials to visit the suspected facility within 60 days of receipt of a written request.
- "Third, the United States Government will submit a report indicating the results of the visit to the Chinese Government within 60 days of a visit by diplomatic officials to a suspected facility.
- "Fourth, in cases where the U.S. government presents new or previously unknown information on suspected exports of prison labor products destined for the United States regarding a suspected facility that was already visited, the Chinese Government will organize new investigations and notify the U.S. side. If necessary, it can also be arranged for the U.S. side to again visit that suspected facility.
- "Fifth, when the Chinese Government organizes the investigation of a suspected facility and the U.S. side is allowed to visit the suspected facility, the U.S. side will provide related information conducive to the investigation. In order to accomplish the purpose of the visit, the Chinese side will, in accordance with its laws and regulations, provide an opportunity to consult relevant records and materials on-site and arrange visits to necessary areas of the facility. The U.S. side agrees to protect proprietary information of customers of the facility consistent with the relevant terms of the Prison Labor MOU.
- "Sixth, both sides agree that arrangements for U.S. officials to visit suspected facilities, in principle, will proceed after the visit to a previous suspected facility is completely ended and a report indicating the results of the visit is submitted."

U.S. Laws and Regulations Prohibiting Imports Made With Prison Labor

---

Since 1890, the United States has banned importing goods made by convict labor. The current prison labor statute, section 307 of the Smoot-Hawley Tariff Act of 1930, as amended (19 U.S.C. 1307 (1988)) was preceded by section 51 of the Tariff Act of 1890, which was intended to protect domestic labor from manufactured goods produced by foreign convict labor.[1] During consideration of section 307, a Senate amendment was offered to extend the provision to include goods produced by "forced labor or/and indentured labor." Since some Members of Congress were concerned that the humanitarian aspects of the proposed amendment might harm the U.S. consumer, the Conference Committee on the 1930 Tariff Act added a caveat, the "consumptive demand" clause. This caveat specified that the statute would not apply to goods produced by "forced labor or/and indentured labor" that were not produced "in such quantities in the United States as to meet the consumptive demands of the United States." CIT described section 307 as follows:

> "Congress intended to protect domestic workers and producers from unfair competition. But this concern as well as any desire to improve foreign labor conditions were clearly subordinate in section 307, as enacted, to concern for the American consumer's access to merchandise not produced domestically in quantities sufficient to satisfy consumer demand."[2]

Thus, section 307 is intended primarily to protect U.S. producers', consumers', and workers' rights, rather than to promote human rights in other countries.

Under section 307, the Secretary of the Treasury is charged with developing regulations to enforce this provision of the law. The Secretary of the Treasury has delegated to the U.S. Customs Service the responsibility for administering the prohibition on importing goods made by convict or forced labor. To enforce a ban on imports, Customs must gather evidence and determine whether the goods were produced by forced or convict labor. However, such a determination cannot be established by a simple examination of the goods themselves. Customs may investigate when allegations are made that merchandise is imported or is likely to be imported in violation of section 307. In investigating a suspected violation, Customs commonly obtains information from sources that include foreign interests, importers, domestic producers, and others.

---

[1] [ch. 1244, 26 Stat. 567, 624 (1890)]

[2] Id. at 1233.

If the information reasonably indicates that the merchandise may fall within the purview of section 307, the Commissioner of Customs is to advise all district directors in charge of U.S. ports to withhold release of the merchandise. The importer must then produce a certificate of origin, signed by the foreign seller or owner, that contains sufficient information showing that prohibited labor was not used. If, despite the importer's evidence, there remains probable cause to conclude that certain merchandise is subject to the provisions of section 307 and consequently prohibited from importation, Customs is to publish its finding in the Federal Register. Such a finding must be approved by the Secretary of the Treasury. Once the importer has filed a protest with Customs and the protest has been denied, the importer can then file suit in CIT to try to overturn the Customs determination.

If Customs suspects that prison labor goods are being imported intentionally, Customs may refer the case to a U.S. attorney for criminal prosecution. U.S. law provides criminal penalties for the knowing importation or transportation in interstate commerce of convict or prison-made goods.[3]

---

[3] Title 18 U.S.C. 1761(a) states: "Whoever knowingly transports in interstate commerce or from any foreign country into the United States any goods, wares, or merchandise manufactured, produced, or mined, wholly or in part by convicts or prisoners, except convicts or prisoners on parole, supervised release, or probation, or in any penal or reformatory institution, shall be fined not more than $50,000 or imprisoned not more than two years, or both."

The Case of China Diesel Imports v. the United States

Background

In November 1991, the U.S. Commissioner of Customs issued a detention order advising all district directors to withhold the release of certain Chinese diesel engines that had been imported to the United States. The U.S. importer, China Diesel Imports, Inc., previously denied that the engines had been produced with prohibited labor. However, in January 1992, Customs determined again that the diesel engines had been produced with convict and/or forced and/or indentured labor and therefore should be denied U.S. entry according to 19 U.S.C. 1307. China Diesel filed suit in CIT on October 16, 1992, to challenge the protest denial and to assert that the diesel engines should have been allowed entry into the United States.[1]

China Diesel and the Standard of Review

Before CIT issued its first opinion in China Diesel, the Justice Department argued that the standard of review applied by CIT should be limited to the records used by Customs in making its determination. Such a hearing would be based on the Administrative Procedures Act (APA) (5 U.S.C. 706, 1988) standard of review, which is usually limited to the agency's compiled record.

On June 2, 1994, CIT refused to apply the APA standard of review and held that it must adjudicate all factual issues in this case. Such a proceeding is called a de novo review. In a de novo review, CIT would make its own findings concerning whether the goods in question were prison labor exports, and the importer would be able to introduce new evidence. Moreover, in a trial de novo, the rules of evidence might not allow admission of much of the informal testimony that was developed and related orally by Customs officials under the MOU. The testimony of government witnesses who spoke with Chinese prison inmates, for example, might be precluded by the rule against hearsay.

On December 7, 1994, CIT upheld Customs' right to exclude, under section 307, diesel engines manufactured in China. In upholding Customs' exclusion, CIT held that the importer had the burden of proving that the diesel engines involved in the case were not made, in whole or in part, with convict labor and that the importer had not met this burden. China Diesel Imports, Inc., did not file an appeal within the 60 days allowed after the CIT's decision.

In reaching its conclusion in China Diesel, CIT said that it had relied most heavily upon Chinese government documents and reference publications.

---

[1] China Diesel Imports, Inc. v. The United States, No. 94-90, slip op. at 13 (CIT, June 2, 1994).

The documents appeared to identify the facility where the engines were manufactured as a "Reform through Labor" facility. CIT held that such facilities were penal, and the inmates who worked in them were convicts. CIT stated that these documents alone would have provided sufficient evidence to uphold Customs' determination. In addition, CIT stated that its conclusion was corroborated by (1) testimony of State Department officials that their tour of the Chinese facility had been staged, and by (2) failure of the Chinese factory manager to appear at the trial.

Other Issues Arising From China Diesel

CIT also reached two conclusions regarding the application of the consumptive demand clause of the 1930 Tariff Act. First, CIT held that the clause's exception of imported goods made with forced and/or indentured labor applies in instances when the product is not available and not merely, as the government argued, when domestic industry lacked the capability to produce goods in question. Second, CIT ruled that the consumptive demand exception does not apply to convict-made goods. This second conclusion was particularly significant, because previous courts had declined to decide whether importing a product produced with convict labor is permissible when domestic production is insufficient to satisfy domestic demand.[2]

In defending Customs' determination, Justice officials stated that the MOU was particularly useful to the presentation of the U.S. government's case. First, the Chinese government had arranged a tour of the facility according to the terms provided in the MOU. Second, because the MOU provides that each party furnish "available evidence and information regarding suspected violations of relevant laws and regulations in a form admissible in judicial or administrative proceedings of the other party," CIT allowed the Justice Department to draw inferences from the Chinese government's apparent unwillingness to allow the factory manager to testify. Justice officials explained that, were it not for the language of the MOU, the U.S. government would normally not have been permitted to argue that the failure of the factory manager to appear suggested that his testimony would be damaging to the importer's case.

Justice Officials' Concerns Regarding Future Cases

Despite the outcome of China Diesel, Justice officials still have concerns regarding their ability to gather evidence efficiently and inexpensively in section 307 cases under a de novo standard of review. They are concerned that the outcome of the case may have depended on certain circumstances that may not be present in future cases. These circumstances include

---

[2] See McKinney v. United States Department of the Treasury 614 F. Supp. 1226 (CIT 1985).

(1) the availability of Chinese government and reference publications that identified the facility in question as a "Reform through Labor" facility. According to Justice officials, the Chinese government ceased identifying "Reform through Labor" facilities in its publications as of 1990.

(2) the availability at trial of the State Department officials who conducted the on-site investigation. Justice officials explained that the U.S. government personnel who conduct the factory tour may not always be available to testify.

(3) the paucity of evidence produced by the importer. Even assuming that future courts place the burden of proof on the importer, the U.S. government may nevertheless be required to produce evidence in order to refute evidence introduced by the importer.[5]

Finally, because different CIT judges may decide similar cases differently, the future application of CIT decisions is unclear until the issue in question is decided by the Court of Appeals for the Federal Circuit. Thus, despite the decision in China Diesel, it is uncertain whether CIT will apply a de novo standard of review in future section 307 cases.

---

[5] Evidence which, if unexplained or uncontradicted, is sufficient to sustain judgment in favor of the plaintiff, is called prima facie evidence.

Reprinted from Chinese Forced Labor Exports to the United States. Joint Hearing before the Subcommittees on Economic Policy, Trade and Environment; International Security, International Organizations and Human Rights; and Asia and the Pacific, Committee on Foreign Affairs, House of Representatives, 103rd Congress, 1st Session, 1993. p. 31-76.

APPENDIX

OPENING STATEMENT
PRISON LABOR IN CHINA

HOUSE FOREIGN AFFAIRS COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

WINSTON LORD
ASSISTANT SECRETARY
EAST ASIAN AND PACIFIC AFFAIRS
DEPARTMENT OF STATE

THURSDAY, SEPTEMBER 9, 1993

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE.

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE TO PROVIDE AN UPDATE ON THE PROBLEM OF CHINESE PRISON LABOR EXPORTS TO THE UNITED STATES.

WITH CERTAIN EXCEPTIONS, U.S. LAW PROHIBITS THE IMPORTATION OF "ALL GOODS MINED, PRODUCED, OR MANUFACTURED WHOLLY OR IN PART IN ANY FOREIGN COUNTRY BY CONVICT LABOR OR/AND FORCED LABOR OR/AND INDENTURED LABOR UNDER PENAL SANCTIONS." THE U.S. GOVERNMENT HAS DEVOTED GREAT EFFORTS TO PREVENT PRODUCTS PRODUCED BY PRISON LABOR FROM BEING IMPORTED INTO THIS COUNTRY. WE AT THE STATE DEPARTMENT WORK CLOSELY WITH THE U.S. CUSTOMS SERVICE ALL OVER THE WORLD TO SUPPORT LAW ENFORCEMENT BOTH AT OUR BORDERS AND OVERSEAS.

SPECIFICALLY REGARDING CHINA, WE HAVE STRIVEN TO IDENTIFY AND REPORT ON THE EXPORT OF PRISON LABOR PRODUCTS TO THE UNITED STATES SINCE THE BEGINNING OF THIS DECADE.

BEST COPY AVAILABLE

IT IS NO MISTAKE OR QUIRK OF BUREAUCRATIC POLICYMAKING THAT LINKED LABOR WITH OUR MFN PROCESS FOR CHINA. ALONG WITH OTHER AREAS OF HUMAN RIGHTS WE ARE DEEPLY CONCERNED ABOUT THIS ISSUE.

I MUST SAY, MR. CHAIRMAN, THAT, WITHOUT STEALING THE PODIUM FROM COMMISSIONER WEISE, I SHARE HIS CONCERN WITH THE CURRENT STATE OF IMPLEMENTATION OF THE MEMORANDUM OF UNDERSTANDING THAT WE SIGNED WITH THE CHINESE.

THIS ADMINISTRATION HAS A COMMITMENT TO HUMAN RIGHTS AND ENFORCEMENT OF THE PRISON LABOR MOU. CHINA'S MFN STATUS IS CONDITIONED ON IT. IT WILL NOT BE EXTENDED IF THERE IS NOT SATISFACTORY IMPLEMENTATION OF THE MOU AND OVERALL PROGRESS ON HUMAN RIGHTS.

AT THIS POINT THERE IS REASON FOR CONCERN. RECENT HUMAN RIGHTS PROBLEMS HAVE OVERTAKEN POSITIVE GESTURES BY THE CHINESE GOVERNMENT. THE OVERALL IMPLEMENTATION OF THE PRISON LABOR AGREEMENT HAS GENERALLY BEEN CHARACTERIZED BY POOR COMMUNICATIONS, SLOW AND CURSORY RESPONSES TO INVESTIGATION QUESTIONS, AND STONEWALLING OR REJECTIONS OF REQUESTS FOR VISITS.

EARLY EFFORTS BY THE U.S. GOVERNMENT TO LEARN ABOUT PRISON LABOR EXPORTS WERE NOT SUCCESSFUL. INCREASING INFORMATION FROM SOURCES LIKE HARRY WU, ASIAWATCH AND OTHERS, COUPLED WITH INTEREST ON THE PART OF THE CONGRESS, RAISED THE LEVEL OF PUBLIC AND GOVERNMENTAL ATTENTION TO THESE ISSUES.

IN OCTOBER 1991, PARTLY IN RESPONSE, THE CHINESE ISSUED A REGULATION PROHIBITING THE EXPORT OF PRODUCTS MADE WITH PRISON LABOR. HOWEVER, THERE WAS STILL THE NEED TO ENSURE THAT THESE EXPORTS DID NOT REACH OUR SHORES. CONCERN IN THE PREVIOUS ADMINISTRATION AND THE CONGRESS PROMPTED THE U.S. TO SEEK A MEMORANDUM OF UNDERSTANDING ON PROCEDURES FOR PROMPT INVESTIGATION OF ALLEGATIONS THAT SPECIFIC IMPORTS FROM CHINA WERE PRODUCED BY PRISON LABOR.

WE DID NOT WAIT, HOWEVER, FOR THE PRISON LABOR MOU TO BE SIGNED BEFORE WE TOOK ACTION. U.S. LAW PROVIDES THAT CUSTOMS MAY ISSUE DETENTION ORDERS WHEN INFORMATION REASONABLY, BUT NOT CONCLUSIVELY, INDICATES THAT MERCHANDISE PRODUCED BY FORCED LABOR IS BEING, OR IS LIKELY TO BE, IMPORTED. DETENTION ORDERS DO NOT NECESSARILY IMPLY THAT GOODS HAVE IN FACT BEEN SEIZED. BUT THEY PROHIBIT THE IMPORT OF GOODS FROM SUBJECT FACILITIES INTO THE UNITED STATES. THE DETENTION ORDER CANNOT BE LIFTED UNTIL CUSTOMS MAKES A CLEAR DETERMINATION THAT THE FACILITY IN QUESTION DOES NOT UTILIZE PRISON LABOR ON THE PRODUCTION LINE.

THE DETENTION ORDER ON BLISS MACHINE TOOLS, WHICH RESULTED IN EFFECTIVE PROSECUTION AND PROHIBITION OF IMPORTS OF MACHINE TOOLS MADE BY PRISON LABOR, IS ONE EXAMPLE. I AM SURE COMMISSIONER WEISE HAS MANY MORE. WE HOPED THAT AN MOU WOULD ASSIST CUSTOMS IN MAKING THESE DETERMINATIONS WITH REGARD TO CHINESE FACILITIES.

THUS, AFTER A LONG, LABORIOUS NEGOTIATION IN WHICH WE WERE ABLY ASSISTED BY OUR COLLEAGUES IN THE CUSTOMS SERVICE, THE U.S. AND CHINA SIGNED A MEMORANDUM OF UNDERSTANDING ON TRADE IN PRISON LABOR PRODUCTS IN AUGUST, 1992. THIS WAS A SIGNIFICANT STEP FORWARD IN STRENGTHENING COMPLIANCE WITH BOTH AMERICAN AND CHINESE LAWS AND REGULATIONS PROHIBITING TRADE IN PRISON LABOR PRODUCTS. EFFECTIVE IMPLEMENTATION IS AN IMPORTANT U.S. PRIORITY IN OUR BILATERAL RELATIONS WITH CHINA.

THE MEMORANDUM OF UNDERSTANDING PROVIDES FOR:

-- PROMPT INVESTIGATION OF SUSPECTED VIOLATIONS OF THE LAWS AND REGULATIONS OF EACH SIDE RELATING TO TRADE IN PRISON LABOR PRODUCTS;

-- EXCHANGES OF INFORMATION;

-- MEETINGS BETWEEN OFFICIALS AND EXPERTS OF THE TWO SIDES;

-- FURNISHING OF EVIDENCE THAT CAN BE USED IN JUDICIAL OR ADMINISTRATIVE PROCEEDINGS AGAINST VIOLATORS; AND

-- PROMPT FACILITATION OF VISITS TO RELEVANT FACILITIES UPON THE REQUEST OF EITHER PARTY.

ALMOST IMMEDIATELY AFTER THE SIGNING, THE U.S. CUSTOMS SERVICE ASSIGNED A U.S.-BASED OFFICER TO THE EMBASSY TO FACILITATE IMPLEMENTATION OF THE MOU. SINCE THEN CUSTOMS OFFICERS HAVE TRAVELED FREQUENTLY TO CHINA ON TEMPORARY ASSIGNMENT TO CONDUCT INVESTIGATIONS. THIS MONTH, THE U.S. WILL ASSIGN TWO FULL-TIME OFFICERS TO STAFF ITS NEW OFFICE IN BEIJING. ONE OF THESE WILL BE RESPONSIBLE PRIMARILY FOR PRISON LABOR ISSUES. THIS WILL SUBSTANTIALLY BOOST TO OUR EFFORTS TO WORK WITH OUR CHINESE COUNTERPARTS TO CARRY OUT THE MOU.

LET ME BRIEFLY REVIEW THE PROCEDURE WE FOLLOW IN INVESTIGATING CASES. I WOULD NOTE THAT WE HAVE HAD PROBLEMS AT ALMOST EVERY STAGE OF THIS PROCESS. FIRST, WE REQUEST THE CHINESE TO INVESTIGATE FACILITIES WHICH WE HAVE REASON TO BELIEVE USE PRISON LABOR TO PRODUCE GOODS FOR EXPORT. AT THIS TIME WE PRESENT THE CHINESE WITH WHATEVER HARD EVIDENCE WE HAVE THAT A FIRM IS ENGAGING IN PRISON LABOR TRADE. DEPENDING ON THE RESULTS OF THE CHINESE MINISTRY OF JUSTICE INVESTIGATION, WE MAY ASK TO MAKE A VERIFICATION VISIT TO THE SITE.

SINCE THE SIGNING OF THE MOU, WE HAVE PRESENTED THIRTY-ONE CASES OF SUSPECTED PRISON LABOR VIOLATIONS TO THE CHINESE FOR INVESTIGATION. UNTIL YESTERDAY, THE CHINESE HAD PROVIDED REPORTS ON SIXTEEN OF THESE CASES AND WE WERE AWAITING RESPONSES TO ANOTHER FIFTEEN WHICH WERE PRESENTED TO THE CHINESE IN JUNE. MR. CHAIRMAN, I AM PLEASED TO REPORT TODAY THAT OUR EMBASSY IN BEIJING HAS JUST RECEIVED THE RESULTS OF THE FIFTEEN OUTSTANDING CASES. THE RESULTS OF THESE INVESTIGATIONS COULD HAVE A BEARING ON OUR ABILITY TO IMPLEMENT THE MOU IN THE SHORT TERM. BOTH STATE AND CUSTOMS OFFICIALS WILL BE FOLLOWING UP ON THESE CASES SHORTLY IN MEETINGS WITH THE CHINESE IN BEIJING. THAT THE CHINESE HAVE CONCLUDED THESE INVESTIGATIONS DESPITE THEIR CONCERNS ABOUT OTHER OUTSTANDING CASES MAY SIGNAL AN INCREASED WILLINGNESS TO WORK WITH US TO IMPLEMENT THE MOU. LET US HOPE SO.

WHILE WE HAVE NOT HAD A CHANCE TO EVALUATE THE CONTENTS OF THE NEW CHINESE REPORTS, I CAN GIVE YOU A BRIEF SUMMARY OF THEIR FINDINGS.

THE CHINESE INDICATED THAT ELEVEN OF THE FIFTEEN FIRMS EITHER DO NOT EXPORT THEIR PRODUCTS, OR DO NOT EXPORT TO THE U.S.

ON AUGUST 25, 1992, WE REQUESTED VISITS TO FIVE SITES. WE HAVE VISITED ONLY ONE OF THESE FACILITIES, THE JINNA DIESEL FACTORY, WHILE OUR REPEATED REQUESTS TO SEE THE OTHERS HAVE BEEN REJECTED. FOR EXAMPLE, THE CHINESE RESPONDED THAT, SINCE CONSULATE OFFICERS HAD SEEN SEVERAL OF THE OTHER SITES PRIOR TO THE SIGNING OF THE MOU, VISITS TO THESE FACILITIES WERE UNNECESSARY. ON THE OTHER HAND, WE HAVE VISITED TWO SITES WHICH WE DID NOT ASK TO SEE, BUT ON WHICH WE HAD REQUESTED INVESTIGATIONS.

IN RESPONSE TO THE FIRST FIVE CASES SUBMITTED THE CHINESE STATED THAT THEY FOUND NO EVIDENCE THAT PRISON LABOR HAD BEEN USED TO PRODUCE EXPORTS. THE CHINESE SUBSEQUENTLY REPORTED THE RESULTS OF ELEVEN OTHER CASES. OF THESE ELEVEN, THEY CLAIM THAT SIX FACILITIES ARE PRISONS WHICH DO NOT PRODUCE GOODS FOR EXPORT, AND THAT ANOTHER ONE IS A WORKERS COLLECTIVE WHICH ALSO DOES NOT EXPORT. THE CHINESE MAINTAIN THAT IN MANY CASES FACTORIES EMPLOY FAMILY MEMBERS OF PRISON SYSTEM EMPLOYEES, BUT NOT PRISONERS THEMSELVES.

IN THE REMAINING FOUR CASES THE CHINESE FOUND THAT PRISON LABOR HAS BEEN USED FOR EXPORT PRODUCTION IN THE PAST. HOWEVER, THEY MAINTAIN THAT THESE FACTORIES -- THE SICHUAN ZIGONG MACHINE TOOL FACTORY, THE SICHUAN MIAOXI TEA PLANTATION, THE SHANDONG DEZHOU SHENGJIAN MACHINERY FACTORY, AND THE HUBEI XIANGYANG MACHINE TOOL FACTORY -- EITHER HAVE CEASED EXPORTING OR HAVE REMOVED PRISONERS FROM THE PRODUCTION LINE. SICHUAN ZIGONG MACHINE TOOL FACTORY WAS FOUND TO HAVE EXPORTED PRISON LABOR-PRODUCED GOODS TO SOUTHEAST ASIA. DESTINATIONS OF PAST EXPORTS FROM THE OTHER FACILITIES WERE NOT REPORTED.

AS I NOTED ABOVE, INSPECTION TEAMS, COMPRISING BOTH STATE AND CUSTOMS OFFICIALS, HAVE VISITED THREE SUSPECTED PRISON LABOR FACILITIES, AND WE HAVE LONG-STANDING REQUESTS TO SEE FIVE OTHERS. THIS INCLUDES ONE IN YUNNAN, THE JINMA DIESEL ENGINE FACTORY, WHERE THE FIRST VISIT WAS INCONCLUSIVE BECAUSE LOCAL AUTHORITIES DENIED THE INSPECTION TEAM ACCESS TO THREE AREAS OF THE FACTORY COMPOUND. UP TO NOW, REQUESTS FOR A REVISIT HAVE BEEN DENIED. ACCORDINGLY, THE DETENTION ORDER ON PRODUCTS FROM THE YUNNAN FACILITY REMAINS IN EFFECT, PENDING RECEIPT OF MORE DEFINITIVE INFORMATION, FOR WHICH WE CONTINUE TO PRESS.

IN TWO CASES, THE QINGHE FARM AND BEIJING NUMBER ONE PRISON (QINGHE HOSIERY FACTORY), EXAMINATION OF PRISON RECORDS AND FACILITIES PRODUCED NO EVIDENCE THAT THESE FACILITIES WERE EXPORTING ANY OF THEIR PRODUCTS. AS A RESULT, THE JOINT CUSTOMS-STATE INVESTIGATION TEAM, IN JUNE, RECOMMENDED THE CLOSURE OF THESE TWO CASES. CUSTOMS IS CURRENTLY STUDYING EVIDENCE OBTAINED FROM VISITS TO THESE TWO SITES TO MAKE A FINAL DETERMINATION ON THEM. COMMISSIONER WEISE CAN ADDRESS THEIR STATUS IN GREATER DETAIL.

IMPLEMENTATION OF THE MOU HAS BEEN SLOW FROM THE START. BUT, THE CHINESE EXHIBITED GREATER WILLINGNESS TO WORK WITH US FOLLOWING THE MARCH VISIT HERE OF A CHINESE DELEGATION OF OFFICIALS FROM THE MINISTRY OF JUSTICE, THE MINISTRY OF FOREIGN AFFAIRS, AND THE MINISTRY OF FOREIGN TRADE AND ECONOMIC COOPERATION. THE TRIP, WHICH BOTH AMERICAN AND CHINESE OFFICIALS TERMED SUCCESSFUL, ALLOWED CHINESE OFFICIALS TO HEAR FIRST-HAND THE CONCERNS OF CONGRESS AND U.S. BUSINESS ON THIS IMPORTANT ISSUE. IN ADDITION TO SEEING YOU AND YOUR STAFF, MR. CHAIRMAN, THE CHINESE DELEGATION MET WITH OFFICIALS AT STATE, CUSTOMS AND THE NSC, AS WELL AS WITH BUSINESS GROUPS.

WHILE IN THE U.S. THE CHINESE ALSO TOURED THREE U.S. FEDERAL PRISONS, INCLUDING THEIR INDUSTRY FACILITIES. THE CHINESE RETURNED HOME WITH A GREATER APPRECIATION OF AMERICAN U.S. POLICY.

WE HAVE REGISTERED COMPLAINTS MANY TIMES WITH THE CHINESE. PERHAPS PREDICTABLY, THE CHINESE HAVE SOME COMPLAINTS OF THEIR OWN. THEY HAVE RECENTLY EXPRESSED FRUSTRATION AT OUR FAILURE THUS FAR TO CLOSE ANY OF THE OUTSTANDING CASES. CHINESE MINISTRY OF JUSTICE OFFICIALS HAVE SUGGESTED THAT WE SHOULD REACH FINAL DETERMINATIONS ON FACILITIES ALREADY SEEN BEFORE REQUESTING ANY MORE SITE VISITS. THE CHINESE EMPHASIZE THAT U.S. CUSTOMS HAS NOT YET RESOLVED ANY CASES DESPITE SEVERAL VISITS TO FACILITIES. THEY HAVE RECENTLY INDICATED THAT THEY MAY WITHHOLD RESULTS OF ONGOING INVESTIGATIONS UNTIL SOME OUTSTANDING CASES, NOTABLY THOSE INVOLVING THE QINGHE FARM AND THE BEIJING NUMBER ONE PRISON, ARE CLOSED.

CHINESE AUTHORITIES HAVE ALSO REPEATEDLY QUESTIONED THE ADEQUACY AND TIMELINESS OF OUR EVIDENCE. MOST INFORMATION WE HAVE COMES FROM CHINESE PUBLICATIONS, IN SOME CASES GOVERNMENT ONES WHICH ARE FIVE YEARS OLD OR MORE. OTHER EVIDENCE COMES FROM COMPANY BROCHURES, AGAIN MANY YEARS OLD, WHICH MAY INCLUDE EXAGGERATED OR MISLEADING CLAIMS ABOUT A COMPANY'S ACTIVITES. THE LACK OF HARD, RECENT EVIDENCE HAMPERS OUR ABILITY TO WORK WITH CHINESE JUSTICE OFFICIALS AND MAKES IMPLEMENTATION OF THE MOU ALL THE MORE DIFFICULT.

FOR OUR PART, WE HAVE REPEATEDLY ENCOUNTERED CHINESE DELAYS IN PROVIDING RESPONSES TO OUR REQUESTS FOR VISITS, AND THEIR INVESTIGATION REPORTS OFTEN LACK DETAIL. PROMPT INVESTIGATION OF SUSPECTED FACILITIES IS IN THE INTEREST OF BOTH THE U.S. AND CHINA. YET WE HAVE BEEN GRANTED ACCESS TO ONLY ONE FACILITY FOR WHICH WE ASKED A VISIT.

AS IN MANY OTHER ISSUES IN SINO-U.S. RELATIONS, THE DECENTRALIZATION OF AUTHORITY WITHIN CHINA, WHICH ACCELERATES THE ECONOMIC CHANGES BENEFICIAL TO A FREER ENVIRONMENT, ALSO HAMPERS PROMPT ENFORCEMENT OF OUR AGREEMENT. CONVERSELY, THE VISITS TO QINGHE FARM AND THE BEIJING NUMBER ONE PRISON -- BOTH IN THE BEIJING AREA -- WERE EFFICIENTLY ARRANGED AND PROVIDED BROAD ACCESS BOTH TO FACILITIES AND, PERHAPS MORE IMPORTANTLY, TO RECORDS.

CHINESE MOJ OFFICIALS HAVE REPEATEDLY BLAMED THE STONEWALLING OF PROVINCIAL AND LOCAL OFFICIALS AT SITES FURTHER FROM CENTRAL CONTROL FOR THE LACK OF MORE RAPID PROGRESS ON INVESTIGATIONS AND VISITS. HOWEVER, THIS IS NO EXCUSE FOR FOOTDRAGGING ON A BILATERAL AGREEMENT OF SUCH IMPORTANCE. WE MUST CONTINUE TO PRESS THE CHINESE FOR MORE, BETTER AND FASTER RESPONSES AND COOPERATION.

PERHAPS EVEN MORE THAN IN PRISON LABOR, THE MOU HAS ENCOURAGED CHINESE COOPERATION IN SEVERAL OTHER CUSTOMS-RELATED AREAS. CUSTOMS SPONSORED A SERIES OF HIGHLY SUCCESSFUL TRADE FAIRS WHICH OUTLINED FOR CHINESE ATTENDEES HOW OUR CUSTOMS PROCEDURES AND REGULATIONS APPLY TO CHINESE BUSINESSES. WE HAVE ENCOURAGED THE CHINESE TO CONSIDER A SIMILAR PROGRAM IN THE U.S. TO ACQUAINT U.S. BUSINESSES WITH CHINESE LAWS. AT THE SAME TIME, CUSTOMS IS CURRENTLY NEGOTIATING A MUTUAL ASSISTANCE AGREEMENT WITH CHINA.

THERE ARE ENCOURAGING SIGNS, BUT MUCH MORE REMAINS TO BE DONE.

I HAVE ALREADY MENTIONED THE INCREASE IN STAFF AT THE EMBASSY. ALTHOUGH WE HAVE A NUMBER OF CUSTOMS-RELATED ISSUES WITH THE CHINESE, THE IMPETUS BEHIND SETTING UP AN OFFICE AND A MAJOR PART OF ITS WORKLOAD WILL BE PRISON LABOR. EVEN WITH INCREASED INVOLVEMENT ON THE GROUND, IT IS DIFFICULT TO ESTIMATE WHETHER OR HOW MANY PRISON LABOR MADE GOODS ENTER THE U.S. THROUGH EXPORT TO A THIRD COUNTRY AND SUBSEQUENT RE-EXPORT TO HERE. SIMILARLY, IT CAN BE HARD TO DETERMINE THE ORIGIN OF GOODS SHIPPED TO LOCAL TRADING COMPANIES AND THEN EXPORTED TO THE U.S.

U.S. BUSINESS CAN ASSIST U.S. OFFICIALS IN THESE EFFORTS. WE SHOULD URGE AMERICAN BUSINESSPEOPLE WHO TRAVEL FREQUENTLY TO CHINA TO CONSULT WITH CHINESE TRADING PARTNERS AND ENCOURAGE THEM TO WATCH FOR POSSIBLE VIOLATIONS OF OUR REGULATIONS GOVERNING IMPORTS OF PRISON LABOR PRODUCTS. OBVIOUSLY ANY SUSPICIONS SHOULD BE BROUGHT TO THE ATTENTION OF U.S. OFFICIALS.

IN ADDITION, WE WELCOME INFORMATION FROM OTHER ORGANIZATIONS WHICH MIGHT IDENTIFY VIOLATIONS. FOR EXAMPLE, THE LAOGAI RESEARCH FOUNDATION AND ITS HEAD, HARRY WU, HAVE RESEARCHED NUMEROUS CHINESE FACILITIES IN AN EFFORT TO IDENTIFY PRISON LABOR-PRODUCED EXPORTS, SOMETIMES AT GREAT PERSONAL RISK.

THE GOOD FAITH OF BOTH PARTIES, THE UNITED STATES AND CHINA, IS CRITICAL TO THE SUCCESSFUL IMPLEMENTATION OF THE MOU. WE HAVE REPEATEDLY UNDERSCORED THE IMPORTANCE WE ATTACH TO THIS ISSUE. THIS YEAR CHINA'S PROGRESS IN STEMMING EXPORTS OF PRISON LABOR-PRODUCED GOODS THROUGH IMPLEMENTATION OF THE MOU, TOGETHER WITH FREEDOM OF EMIGRATION AND OTHER HUMAN RIGHTS CONCERNS, WILL BE SCRUTINIZED IN DETERMINING OUR RECOMMENDATIONS ON MOST FAVORED NATION TRADE TREATMENT FOR CHINA.

IN THE COMING MONTHS, WE WILL CONTINUE TO EVALUATE CHINESE ACTIONS IN THIS AREA, INCLUDING POSITIVE, PROMPT, AND COMPLETE ACCESS TO SUSPECTED FORCED LABOR SITES. THIS WILL NOT BE AN "EASY TO MEET CONDITION", BUT IT IS A FAIR ONE. FOR WE ARE NOT MAKING NEW DEMANDS OF THE CHINESE. WE MERELY SEEK THEIR FAITHFUL IMPLEMENTAION OF PAST AGREEMENTS. WE FIRMLY HOPE WE WILL SEE PROGRESS. IT IS IN THE INTEREST OF BOTH COUNTRIES THAT WE DO SO.

OUR ABILITY TO IMPLEMENT THE MOU EFFECTIVELY WILL DEPEND IN LARGE PART UPON CHINESE WILLINGNESS TO COOPERATE WITH U.S. OFFICIALS. WE BEGAN TO SEE SOME IMPROVEMENT AFTER THE VISIT OF CHINESE OFFICIALS HERE, THEN IT DROPPED OFF. WE NEED TO RESTORE MOMENTUM. AT THE SAME TIME, ON OUR PART, WE OUGHT EITHER TO RESOLVE THOSE CASES WE CAN OR ASK FOR WHATEVER INFORMATION WE LACK.

MR. CHAIRMAN, IN CONCLUSION, I WISH TO ASSURE YOU THAT THE ADMINISTRATION WILL CONTINUE TO PURSUE ACTIVELY PRESIDENT CLINTON'S COMMITMENT TO IMPLEMENT THIS AGREEMENT DECISIVELY. OUR GOAL IS TO ENSURE THAT NO GOODS PRODUCED BY PRISON LABOR ENTER THIS COUNTRY IN VIOLATION OF U.S. LAW.

I WOULD BE PLEASED TO ANSWER YOUR QUESTIONS. THANK YOU.

TESTIMONY OF GEORGE J. WEISE
COMMISSIONER
UNITED STATES CUSTOMS SERVICE
BEFORE THE
HOUSE FOREIGN AFFAIRS SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
SEPTEMBER 9, 1993

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS THE ILLEGAL IMPORTATION OF PRODUCTS MADE BY FORCED LABOR, AND TO ADDRESS ANY QUESTIONS YOU OR YOUR COLLEAGUES MAY HAVE.

I CAN ASSURE THE SUBCOMMITTEE THAT THE CUSTOMS SERVICE IS CONCERNED ABOUT THE ILLEGAL IMPORTATION OF GOODS PRODUCED BY FORCED LABOR. WE ARE EQUALLY CONCERNED WITH THE HUMAN AND CIVIL RIGHTS OF INDIVIDUALS FORCED TO PRODUCE SUCH PRODUCTS IN CHINA. THE IMPORTATION OF GOODS MANUFACTURED "WHOLLY OR IN PART" BY "CONVICTS OR PRISONERS," IS, WITH CERTAIN EXCEPTIONS, PROHIBITED UNDER 18 USC 1761. THE IMPORTATION OF GOODS PRODUCED "WHOLLY OR IN PART" BY "CONVICT LABOR/AND FORCED LABOR OR/ AND INDENTURED LABOR UNDER PENAL SANCTIONS," IS, WITH CERTAIN EXCEPTIONS, PROHIBITED UNDER 19 USC 1307.

I WOULD LIKE TO EMPHASIZE BOTH MY OWN AND CUSTOMS' STRONG COMMITMENT TO THE ENFORCEMENT OF THIS NATION'S (COMMERCIAL AND CRIMINAL) LAWS. THE ISSUE BEFORE US TODAY, THE ILLEGAL IMPORTATION OF GOODS PRODUCED BY FORCED LABOR, IS OF GREAT CONCERN TO BOTH CUSTOMS AND THIS COMMITTEE, BECAUSE THE PRACTICE CONSTITUTES NOT ONLY A VIOLATION OF U.S. LAW BUT OF THIS NATION'S CONSCIENCE AS WELL. IN FACT, THE CUSTOMS SERVICE HAS MADE THE INVESTIGATION INTO THE ILLEGAL IMPORTATION OF FORCED LABOR PRODUCED GOODS A PRIORITY UNDER OUR 1993 NATIONAL TRADE ENFORCEMENT STRATEGY.

THE CURRENT ADMINISTRATION HAS MADE ITS VIEWS CLEAR REGARDING THE NEED TO CONSIDER THE HUMAN AND CIVIL RIGHTS OF INDIVIDUALS IN CHINA AND THROUGHOUT THE WORLD WHO ARE PRESENTLY FORCED TO PRODUCE PRODUCTS AND GOODS INTENDED FOR EXPORT TO THE U.S. THERE ARE, OF COURSE, NUMEROUS OBSTACLES TO OVERCOME BEFORE WE CAN FULLY RESOLVE THIS PROBLEM, BUT AT THE UNITED STATES CUSTOMS SERVICE WE WILL CONTINUE, AND WITH THE SUPPORT AND COUNSEL OF THIS COMMITTEE, RENEW OUR EFFORTS TO IDENTIFY, DOCUMENT, AND RESOLVE CASES INVOLVING INDIVIDUALS OR COMPANIES THAT CONTINUE TO PROFIT THROUGH THE USE OF FORCED LABOR.

AS YOU ARE AWARE, THE CUSTOMS SERVICE ATTEMPTS TO ENFORCE THE LAWS AFFECTING CHINESE FORCED LABOR IMPORTS, IN PART, THROUGH A MEMORANDUM OF UNDERSTANDING (MOU) WITH THE CHINESE GOVERNMENT. THE AUGUST 7, 1992, MOU WAS NEGOTIATED AND APPROVED BY REPRESENTATIVES FROM THE UNITED STATES DEPARTMENT OF STATE AND THE PEOPLE'S REPUBLIC OF CHINA. THE MOU PROVIDES THE U.S. WITH A PROCEDURE TO REQUEST THE CHINESE CONDUCT INVESTIGATIONS OF FACILITIES, "BASED ON SPECIFIC INFORMATION" THAT A FACILITY IS "SUSPECTED OF VIOLATING RELATIVE REGULATIONS AND LAWS..." IN ORDER TO "RESOLVE SPECIFIC OUTSTANDING CASES RELATED TO THE SUBJECT MATTER" OF THE MOU, THE PARTIES AGREED TO "PROMPTLY ARRANGE AND FACILITATE VISITS...TO ITS RESPECTIVE COMPANIES, ENTERPRISES OR UNITS."

ALTHOUGH ON THE SURFACE IT MAY APPEAR THAT THE CHINESE HAVE BEEN COOPERATIVE, WE AT CUSTOMS HAVE SUBSTANTIAL CONCERNS ABOUT THE ONGOING IMPLEMENTATION AND CHINESE COMPLIANCE WITH THE LETTER AND SPIRIT OF THE AGREEMENT. IN FACT, TO DATE, THE CHINESE HAVE ONLY RESPONDED TO 16 OF 31 U.S. REQUESTS FOR INVESTIGATIONS UNDER THE MOU, AND HAVE ONLY GRANTED 1 OF 5 REQUESTS TO INSPECT SUSPECT FACILITIES. THE 16 CHINESE INVESTIGATIVE REPORTS HAVE BEEN VERY BRIEF AND LACKED SUFFICIENT DETAIL FOR CUSTOMS TO RESOLVE THE ISSUE. SIMILARLY, IN THE 1 VISIT THAT WAS CONDUCTED BY U.S. REPRESENTATIVES AT A

SUSPECT FACILITY, WE WERE ALLOWED ACCESS ONLY TO PARTS OF THE COMPOUND. THE CHINESE HAVE DENIED A U.S. REQUEST TO REVISIT THAT FACILITY.

THE CHINESE HAVE, HOWEVER, ALLOWED US TO VISIT 2 FACILITIES FOR WHICH WE HAD REQUESTED INVESTIGATIONS, BUT HAD NOT REQUESTED VISITS. WHILE OUR INVESTIGATORS DID WITNESS PRISONERS MANUFACTURING CERTAIN PRODUCTS, WE FOUND NO EVIDENCE OF EXPORTS OF THE COMMODITIES BEING PRODUCED AT THESE 2 PRISONS. FINALLY, THE CHINESE HAVE INDICATED THEY ARE UNWILLING TO TAKE ACTION ON FUTURE U.S. VISITS UNDER THE MOU UNTIL THE U.S. ADVISES THE CHINESE THAT WE HAVE RESOLVED THE ISSUES CONCERNING THESE 2 FACILITIES.

MR. CHAIRMAN, THE LACK OF TIMELY AND THOROUGH CHINESE INVESTIGATIONS, AND U.S. INSPECTIONS OF SUSPECT FACILITIES CONTINUE TO BE AN OVERRIDING, CRITICAL PROBLEM AS IT PERTAINS TO CHINESE COMPLIANCE WITH THE MOU.

IN THOSE INSTANCES WHERE THE CHINESE HAVE DENIED REQUESTS FOR VISITS, THEY CONTENDED THAT OUTSTANDING ISSUES HAD BEEN RESOLVED THROUGH THEIR OWN INTERNAL INVESTIGATIONS AND REPORTS, OR BY VISITS FROM U.S. CONSULAR OFFICIALS NOT TRAINED IN THESE MATTERS; AND MADE PRIOR TO THE MOU.

THE U.S. POSITION IS A DIFFERENT ONE: WE BELIEVE THE CHINESE INVESTIGATIONS DID NOT PROVIDE THE EVIDENCE NECESSARY TO "RESOLVE SPECIFIC OUTSTANDING CASES," AND THEREFORE VISITS BY PROPERLY TRAINED U.S. REPRESENTATIVES WERE INDEED REQUIRED. THE CHINESE RESPONSE TO THIS ARGUMENT APPEARS TO BE THAT OUR INITIAL REQUESTS FOR INVESTIGATION DID NOT MEET THE MOU'S INFORMATIONAL THRESHOLD, (I.E., NOT SUFFICIENTLY SPECIFIC) AND THAT THEIR DENIALS FOR VISITS ARE THEREFORE NOT AT ISSUE.

FURTHER COMPLICATING ENFORCEMENT MATTERS, CHINESE OFFICIALS ASSERT THAT THEIR LAWS PROHIBIT THE EXPORTATION OF PRISON MADE GOODS TO THE UNITED STATES, AND THAT THEREFORE NO CHINESE EXPORT DOCUMENTS EXIST FOR SUCH TRANSACTIONS. OFTEN, WHEN IMPORTS DO REACH THE UNITES STATES FROM CHINA THE ACCOMPANYING INVOICES REFLECT A TRADING COMPANY AS THE SHIPPER, WITH NO INDICATION AS TO THE ACTUAL MANUFACTURER OF THE COMMODITY. ALSO, THE GOODS ARE NOT MARKED IN A MANNER THAT INDICATES FORCED LABOR WAS USED IN THEIR MANUFACTURE, AS IS REQUIRED BY 18 USC 1762 (MARKING OF GOODS MADE BY "CONVICTS" OR "PRISONERS".)

THE CHINESE ALSO CONTEND THAT THEIR "TWO-TRACK" SYSTEM - WHERE RELATIVES OF PRISON OFFICIALS HAVE BEEN ALLOWED TO OPERATE AND WORK IN FACTORIES ON PRISON GROUNDS - EXPLAINS WHY

EXPORTED GOODS ARE COMING FROM PRISONS. AGAIN, THE U.S. HAS BEEN UNABLE TO VERIFY THIS SO-CALLED SYSTEM BECAUSE OF THE LACK OF ACCESS TO PRISON FACILITIES.

MR. CHAIRMAN, WE REGRETTABLY FIND OURSELVES AT AN IMPASSE WITH THE CHINESE. WE WILL CONTINUE TO INSIST THAT THE CHINESE HONOR OUR REQUESTS FOR 4 VISITS, AND 1 REVISIT OF SUSPECT FORCED LABOR FACILITIES, AND THAT THEY CONDUCT THE 15 OUTSTANDING INVESTIGATIONS WE HAVE REQUESTED. UNTIL THE CHINESE HONOR THESE REQUESTS, AND DEMONSTRATE A WILLINGNESS TO FULLY COOPERATE WITH THE LETTER AND SPIRIT OF THE MOU, I SEE NO REASON TO CONSIDER LIFTING ANY EXISTING DETENTION ORDERS OR FINDINGS.

THE SECRETARY OF STATE IS CHARGED WITH MAKING A RECOMMENDATION TO THE PRESIDENT NEXT YEAR AS IT RELATES TO CHINESE COMPLIANCE WITH VARIOUS CONDITIONS SET FORTH IN THE MAY 28, 1993, EXECUTIVE ORDER RENEWING MFN FOR THE PRC. AMONG THOSE CONDITIONS IS CHINA'S COMPLIANCE WITH THE MOU. I WILL CONTINUE TO MONITOR CHINA'S RESPONSE TO U.S. REQUESTS UNDER THE MOU, INCLUDING THE TIMELINESS AND COMPLETENESS OF CHINESE INVESTIGATIONS, U.S. ACCESS TO CHINESE SUSPECT FACILITIES AND RECORDS, CUSTOMS SEIZURES OF VIOLATIVE GOODS, THE NUMBER OF COMPLAINTS AND INTELLIGENCE THAT CHINESE FORCED LABOR PRODUCED GOODS ARE BEING EXPORTED TO THE U.S., AND THE RESULTS

OF CUSTOMS CIVIL AND CRIMINAL INVESTIGATIONS.

I WILL MAKE THIS INFORMATION AVAILABLE TO THE SECRETARY OF STATE TO ASSIST IN THE FORMULATION OF HIS RECOMMENDATION TO THE PRESIDENT. MEANWHILE, I WILL CONTINUE TO WORK WITH THE CHINESE IN AN ATTEMPT TO GAIN GREATER COMPLIANCE WITH THE LETTER AND SPIRIT OF THE MOU. LATER THIS MONTH WE ARE SENDING A REPRESENTATIVE TO CHINA IN CONJUNCTION WITH THE OPENING OF A CUSTOMS OFFICE IN BEIJING. OUR REPRESENTATIVE WILL BE MEETING WITH THE CHINESE TO DISCUSS A NUMBER OF ISSUES RELATIVE TO CUSTOMS OPERATIONS IN CHINA, INCLUDING OUR CONCERNS RELATIVE TO THE MOU. THE OFFICE WILL BE STAFFED BY AN ATTACHE, AND AN ASSISTANT ATTACHE. FURTHERMORE, I ALSO INTEND TO VISIT CHINA WITHIN THE NEXT YEAR, AND TO DISCUSS OUR PROGRESS UNDER THE MOU WITH THE CHINESE.

I BELIEVE IT IS IMPORTANT TO MAKE A CLEAR PUBLIC RECORD ON THIS ISSUE. CLEARLY THE CHINESE COULD CONDUCT THE REQUESTED INVESTIGATIONS IN A MORE TIMELY AND THOROUGH MANNER, AS WELL AS ARRANGE FOR VISITS TO SUSPECT FACILITIES MORE PROMPTLY. PROGRESS IS SLOW AND ADMINISTERING THE MOU HAS BEEN FRUSTRATING. WHILE OUR GOVERNMENTS MAY HAVE HAD DIFFERENCES IN INTERPRETATION OF THE MOU, CLEARLY THE CHINESE CAN AND MUST, DEMONSTRATE A GREATER COMMITMENT TO ITS SUCCESS.

ON DECEMBER 5, 1991, THEN COMMISSIONER OF CUSTOMS CAROL HALLET TESTIFIED BEFORE THIS SUBCOMMITTEE ON CHINESE PRISON LABOR IMPORTS. I WOULD LIKE TO REVIEW FOR YOU WHAT THE CUSTOMS SERVICE HAS ACCOMPLISHED SINCE THAT TIME, AND PROVIDE YOU WITH THE DIRECTION IN WHICH I INTEND TO TAKE THE CUSTOMS SERVICE ON THIS VERY IMPORTANT ISSUE.

TO ENFORCE THE STATUTORY PROHIBITION OF FORCED LABOR IMPORTS THE CUSTOMS COMMISSIONER FIRST ISSUES DETENTION ORDERS WHEN INFORMATION REASONABLY, BUT NOT CONCLUSIVELY, INDICATES THAT MERCHANDISE WITHIN THE PURVIEW OF 19 USC 1307 IS BEING, OR IS LIKELY TO BE, IMPORTED (19 CFR 12.42(e)).

IF THE COMMISSIONER SUBSEQUENTLY RECEIVES ADDITIONAL INFORMATION, SUFFICIENT TO MAKE A "DETERMINATION" THAT THE GOODS IN QUESTION ARE INDEED COVERED BY THE PROVISIONS OF 19 USC 1307, THEN THE COMMISSIONER, WITH THE APPROVAL OF THE SECRETARY OF THE TREASURY, WILL PUBLISH A FINDING TO THAT EFFECT IN A WEEKLY ISSUE OF THE CUSTOMS BULLETIN, AND IN THE FEDERAL REGISTER (19 CFR 12.42(f)).

THE CUSTOMS SERVICE HAS WORKED DILIGENTLY TO OBTAIN THE INFORMATION NECESSARY TO SUPPORT THE ISSUANCE OF "DETENTION ORDERS" AND "FINDINGS" RELATIVE TO COMMODITIES SUSPECTED OF

BEING PRODUCED BY CONVICT OR FORCED LABOR.

AS OF AUGUST 16, 1993, THE CUSTOMS SERVICE HAS ISSUED 22 DETENTION ORDERS FOR 22 DIFFERENT COMMODITIES, FROM 20 SUSPECTED FORCED LABOR FACILITIES IN CHINA. FIVE "FINDINGS" HAVE BEEN ISSUED ON COMMODITIES THAT WERE INITIALLY THE SUBJECT OF DETENTION ORDERS. THE COMMODITIES FOR WHICH "FINDINGS" HAVE BEEN ISSUED ARE DIESEL ENGINES, SOCKS, TEA, MACHINE PRESSES, AND SHEEPSKIN AND LEATHER.

ON THE DOMESTIC SIDE OF THE AGENDA, ON APRIL 23, 1992, THE E.W. BLISS COMPANY OF HASTINGS, MICHIGAN, PLED GUILTY TO VIOLATING TWO COUNTS OF 18 USC 1761 (A), IMPORTATION OF PRISON MADE GOODS. THE E.W. BLISS COMPANY WAS FINED $75,000 AND ORDERED TO EXPORT 31 STAMPING MACHINES WHICH HAD BEEN SEIZED BY OUR DETROIT ENFORCEMENT OFFICE.

ALSO, IN OCTOBER OF 1992, THE PENALTIES FOR VIOLATING 18 USC 1761 (TRANSPORTATION OR IMPORTATION OF PRISON-MADE GOODS) WERE INCREASED TO TWO YEARS IN PRISON AND/OR A $50,000 FINE (FROM ONE YEAR AND $1,000), AND THE PENALTY FOR VIOLATING 18 USC 1762 (MARKING PACKAGES FOR PRODUCTS MADE WITH PRISON LABOR) WERE INCREASED TO A $50,000 FINE (FROM $1,000).

ADDITIONALLY, IN MARCH OF 1993, CUSTOMS DENIED A PROTEST FILED BY CHINA DIESEL IMPORTS, JAMUL, CALIFORNIA, RELATIVE TO THE CUSTOMS DETENTION OF 50 JINMA BRAND DIESEL ENGINES, BELIEVED TO HAVE BEEN PRODUCED BY FORCED LABOR. THIS CASE IS PRESENTLY BEFORE THE COURT OF INTERNATIONAL TRADE.

I WISH TO POINT OUT THAT FOR THE THREE YEARS THE FORCED LABOR PROGRAM HAS BEEN IN EFFECT, WE HAVE SPECIFICALLY IDENTIFIED A MINIMAL NUMBER OF ILLEGAL EXPORTS TO THE UNITED STATES. WE DO, HOWEVER, RECEIVE INFORMATION THAT SUCH EXPORTERS ARE OCCURRING. INDEED, BOTH HARRY WU, AND THE HUMAN RIGHTS ORGANIZATION ASIA WATCH HAVE BEEN VERY HELPFUL IN IDENTIFYING SUSPECT FORCED LABOR FACILITIES. HOWEVER, CUSTOMS ABILITY TO ACT ON ALLEGATIONS CONCERNING FORCED LABOR IS SEVERELY HAMPERED BY LIMITED ACCESS TO CHINESE REFERENCE MATERIALS AND PUBLICATIONS ON FORCED LABOR ACTIVITIES, VAGUE COMMODITY DESCRIPTIONS I.E. "PRINTED MATTER," DIFFICULTIES IN TRANSLATION OF SOURCE DOCUMENTS, AND THE CHINESE PROPENSITY TO UTILIZE SEVERAL DIFFERENT NAMES FOR THE SAME FACILITY.

WHILE THE CUSTOMS SERVICE IS SENSITIVE TO THE CONCERNS OF THE LEGITIMATE IMPORTING COMMUNITY ON THIS ISSUE, IMPORTERS HAVE A RESPONSIBILITY TO SCRUTINIZE THEIR IMPORT TRANSACTIONS AND REFUSE TO PURCHASE GOODS PRODUCED BY FORCED LABOR. IN FACT, LEVI STRAUSS & CO. HAS ANNOUNCED ITS DECISION TO PHASE OUT ITS CHINESE OPERATIONS BECAUSE OF WHAT IT DESCRIBED AS "PERVASIVE VIOLATIONS" OF HUMAN RIGHTS IN CHINA.

IN CONCLUSION , LET ME REAFFIRM THE CUSTOMS SERVICE'S COMMITMENT TO SUCCESSFUL IMPLEMENTATION OF THE FORCED LABOR MOU. I HOPE THAT RECENT ACTIONS BY THIS ADMINISTRATION WILL SERVE TO PROMOTE COOPERATION FROM THE CHINESE ON THIS ISSUE. I HOPE THAT CUSTOMS MAY AT SOME TIME IN THE FUTURE HAVE A REASON TO REASSESS THE CURRENT STANDING DETENTION ORDERS AND FINDINGS. ON A BROADER SCALE CUSTOMS HAS BEEN VERY ACTIVE IN ITS EFFORTS HALT THE ILLEGAL IMPORTATION OF MERCHANDISE MANUFACTURED BY FORCED LABOR, IN ANY COUNTRY. BE ASSURED, THE CUSTOMS SERVICE WILL CONTINUE ITS EFFORTS, AND WE WILL NOT BE SATISFIED UNTIL THE EVIDENCE REFLECTS THAT THIS PRACTICE HAS BEEN ELIMINATED.

THIS CONCLUDES MY PREPARED REMARKS. I WOULD BE DELIGHTED TO RESPOND TO ANY QUESTIONS YOU MIGHT HAVE.

ASIA
WATCH

Prison Labor and U.S. Policy Towards China
Testimony of Mike Jendrzejczyk, Washington Director
of Asia Watch
Before the House Foreign Affairs Committee
September 9, 1993

My name is Mike Jendrzejczyk, and I am the Washington Director of Asia Watch, a division of Human Rights Watch, a nongovernmental human rights monitoring organization.

We are pleased and honored to be asked to testify today before three of the distinguished subcommittees of the House Foreign Affairs Committee on the subject of prison labor in China. I would like to acknowledge, in particular, the strong leadership of Rep. Sam Gejdenson on this issue. Your subcommittee, Mr. Chairman, has been especially vigilant in exposing this particularly onerous human rights abuse and pressing for action by the Chinese government and the Executive branch.

As you know, Mr. Chairman, in April 1991 Asia Watch first published official Chinese government documents which boasted about the use of prisoners, including political prisoners, to produce goods for export. In a series of reports published by Asia Watch since then, we have discredited Beijing's insistence that prison-made products are not for export, and documented the appalling conditions in the vast Chinese gulag.[1]

New evidence of China's continuing policy of using prisoners to produce goods for export emerged earlier this year when a former political prisoner, Xu Yiruo, who was released from prison this past February, gave an interview in the *New York Times*.[2] Last week, Mr. Xu provided our office in Hong Kong with a detailed description of his experiences; his statement is attached to my testimony for inclusion in the record of this hearing. (Mr. Xu is currently in Hong Kong seeking resettlement in the U.S. as a political refugee, where he was recently interviewed by a U.S. Customs official.)

Mr. Xu was first arrested and briefly detained in June 1989 because of his pro-democracy activities. He was arrested again in June 1991 after he hung wall posters on the campus of Qingdao University, commemorating the anniversary of the 1989 crackdown. In October 1991, he was sentenced, without trial, to two years of forced labor at the Qingdao Provincial No. 1 Labor Re-education Center.

While detained at the Qingdao No. 1 Municipal Jail, between July and October 1991, in a filthy crowded cell with 10 other prisoners, he was forced to work an average of 17-18 hours daily assembling electric Christmas tree lights for export. According to Mr. Xu, "Production and marking was the number one concern of the prison authorities...[t]he work was so unremitting that before long, the skin on my fingers became raw and bleeding, and, like all the other inmates, I had to bind my fingers with small pieces of cloth in order to be able to continue working. On numerous occasions, the jail governor and other officials informed us that the goods we were making were for export, and they stressed that this was a 'glorious production task' which generated foreign currency for the state." The ultimate foreign destinations of the assembly lights were never revealed to the prisoners.

---

[1] See, for example, "China: Political Prisoners Abused in Liaoning Province as Official Whitewash of Labor Reform System Continues," News from Asia Watch, September 1, 1992; *Anthems of Defeat: Crackdown in Hunan Province*, 1992, and "Democracy Wall Prisoners," News from Asia Watch, March 28, 1993.

[2] "Chinese Dissident's Odyssey" and "Export of Prison Goods Seems to Continue," by Nicholas D. Kristof, *NY Times*, July 19, 1993.

In October 1991, Mr. Xu was transferred to a huge forced labor facility, the Shandong No. 1 Labor Re-education Center, also known as the "August 3rd Factory," in Shandong Province, where prisoners manufactured graphite electrodes and other goods. Some of them were forced to do exhausting work, deep underground, mining a rare type of flint clay (jiaobaoshi, or SS No. 5 clay) for export to Japan, the U.S. and other markets. Medical care was rudimentary and industrial accidents in the mine were common; prisoners were beaten for failing to meet production quotas or for insubordination. Those who "resisted reform" by maintaining their innocence were beaten and treated especially harshly. Those trying to escape these brutal conditions had their sentences automatically increased by two years. The Ministry of Justice was so proud of the operations at the August 3rd Factory it designated the facility as a national model for other labor re-education units around the country.

Mr. Xu worked in the mine until February 16, 1993 when he was released, five months before completion of his sentence. He left behind -- still laboring in the mine today -- other political prisoners such as Shan Zhenheng, a Beijing student first imprisoned for nearly two years after June 1989 due to his pro-democracy activities. Shan was resentenced in 1991 and was transferred to the August 3rd factory; the conditions were so appalling, he attempted suicide by slashing his wrists shortly after his arrival. Mr. Xu also knew of eight Christians, active in an underground Protestant "house church" broken up by the police, who were arrested and sentenced to three years imprisonment. They were sent to work in the mine in September 1992, and to the best of our knowledge, are still detained there.

Following the publication of Mr. Xu's account, we provided the U.S. Customs Service with copies of Chinese government documents (attached to this statement) describing: (Document 1, dated 1991) the production activities of labor re-education camps in Shandong Province and confirming that prisoners are used to make Christmas tree lights and jiaobaoshi clay; (Document 2, dated Feb. 1991) discussing the re-education camp where the clay is mined and processed and its designation as a national model; and (Document 3, dated 1989) citing export products from the Shandong No. 1 Labor Re-education Center and additional details on forced labor production throughout Shandong Province.

These documents not only confirm the information contained in Mr. Xu's statement, but they also make it clear that China's policy on prison labor remains essentially unchanged. Forced labor continues, political and religious prisoners and others are used to produce goods for export, and human rights abuses in the Chinese gulag are rampant and unchecked by Chinese authorities. Yet the Chinese government issues repeated public denials, obviously hoping that they can trick and fool their way past U.S. government inspectors while the state continues to rake in a profit.[3]

---

[3] For example, a foreign ministry spokesman, quoted by *Agence-France Presse* on May 19, 1993, insisted that, "The Chinese side has made careful inspections and found no case of exporting prison labor products to the U.S...China has all along strictly observed the MOU" on prison labor.

U.S. Policy

When the Memorandum of Understanding (MOU) on prison labor between the U.S. and China was signed on August 7, 1992, Asia Watch noted that it was a positive step but expressed concern about the extremely vague language about inspections; without inspections, monitoring compliance with the agreement is virtually impossible. We also were concerned that without the economic pressure of conditions on Most Favored Nation trading status dealing specifically with prison labor, China would lack the necessary incentive to comply with the MOU.

We were pleased by President Clinton's decision this past May to highlight the prison labor issue by making compliance with the MOU an absolute condition for renewal of MFN in June 1994. But, unfortunately, Mr. Chairman, neither the MOU nor the President's Executive Order of May 28, 1993 have brought substantial improvement in the U.S. government's ability to stop prison labor exports. Much more needs to be done (as we recommend below). While the Chinese government claims it is fully cooperating with the U.S. State Department and Customs Service, it has been reluctant to comply with U.S. requests for information and/or inspections. As we have stated in previous testimony to this Committee, if the MOU is inadequate to provide access to all the places where prisoners are suspected of making products for export, then it should be re-negotiated.[4] Or, targeted trade sanctions under Section 301 of the Trade Act or the Smoot-Hawley Act should be imposed.

The President's report to Congress accompanying his Executive Order said that 16 cases of prison exports had been presented to the Chinese government, and that Chinese authorities had responded to all of them. However, we understand that Chinese responses were minimal and in most cases, no documentation was provided. Clearly, this is totally inadequate.

---

[4] See Testimony of Robin Munro, Asia Watch, May 20, 1993.

Fourteen additional cases were presented to the Chinese in June 1993, after the Executive Order was issued. Among them are two cases described in an Asia Watch report on repression in Hunan Province (Anthems of Defeat, May 1992): the Hunan Switchgear Factory and the Hunan Silk Factory, both of which are actually labor re-education centers. This past April we provided the Customs Service with additional documentation on these two facilities. Under the terms of the MOU, the Chinese have apparently been asked to undertake their own "investigations" of these prison factories. Whatever information the Chinese government may present in response, we believe it would be a huge mistake to accept their claims at face value, and that the U.S. should immediately press for access to both facilities.

On the crucial question of inspections, the Chinese government has also been less than forthcoming, apparently trying to get away with the most minimal, technical compliance with the MOU and hoping the Administration will be so intent on renewing MFN next year that it will find a way to let China slip through. Only a few inspections have been allowed, and in some cases, with restrictions imposed. At the time of the Executive Order in May, five requests for visits by Customs officials were pending, along with a request to revisit the Gold Horse Diesel Engine Factory (or Yunnan No. 1 Prison) since U.S. diplomats were able to see only part of the prison last fall. However, we understand that the reinspection request, along with the other four requests for Customs inspections, were rejected by the Chinese authorities because the cases had been "resolved" through their own investigations.

Mr. Xu's testimony offers vivid evidence of how the Chinese government manipulates foreigners' access to their prison production facilities. He said that on at least two occasions, it was announced on the closed-circuit TV network at the August 3rd Factory that Japanese businessmen had visited the factory to negotiate export deals. And in November 1991, a delegation of Austrian police officers was given a guided tour. "All the prisoners were evacuated well in advance, however, and the foreign delegation members were shown only the newly spruced-up dormitory building and the surrounding area. They were not taken to see the clay mine or any of the production facilities, and of course they were allowed nowhere near the punishment block or the solitary confinement cells."

In September 1992, Asia Watch published an extensive report on the use of prisoners in the production of goods for export at the Lingyuan penal complex in Liaoning Province, where several known dissidents -- such as Liu Gang, who smuggled out a grim account of his torture -- are being held. A sales catalogue, excerpted in an appendix to the report, listed foreign markets for products made in Liaoning that are exported by the Yinin Enterprises Incorporation; in at least two cases, involving rubber products (the Shenyang Xinsheng Rubber Plant and Shenyang Xinsheng Reclaimed Rubber Factory), the U.S. is clearly named as one of the markets. But to our knowledge, the U.S. has yet to even make a request to visit these or other facilities in the huge Lingyuan penal complex.[5]

We believe the Administration should make a concerted effort to increase the pressure on the Chinese government to stop prison labor exports to the U.S. and to cease the human rights abuses associated with this practice. We recommend the following steps, to be undertaken with support from Congress and the U.S. business community:

---

[5] News From Asia Watch, published September 1, 1992.

1) When Assistant Secretary of State for Human Rights and Humanitarian Affairs John Shattuck visits China in the coming weeks to discuss the MFN Executive Order, he should present a new list of facilities for inspection -- including, but not limited to those in Hunan, Shandong, and Liaoning where documented evidence of export activity exists. If the Chinese do not immediately agree to visits without restrictions or delay, the U.S. should ban from import to this country categories of goods suspected of being prison-made.

2) The U.S. should also insist on obtaining access to the facilities it had previously asked to inspect. Access by State Department officials cannot take the place of inspections by trained Customs Service agents. If unrestricted visits are not agreed to, the same penalty should be applied, i.e. banning entire categories of goods suspected of being prison-made.

3) If, by the time the Administration presents to Congress its six-months progress report on Chinese compliance with the MFN Executive Order, there has not been a substantial improvement in China's cooperation on prison labor, the Administration should raise the tariffs on a limited, targeted number of products and not wait until next June to apply economic sanctions, or consider revoking MFN, as the Executive Order requires. This would signal U.S. determination to make the MFN conditions stick. (We would note, Mr. Chairman, the Administration's willingness to impose or threaten economic sanctions on China due to its proliferation practices and even, according to yesterday's *Washington Post*, when it comes to protecting endangered species such as rhinos and tigers. What about protecting political prisoners? The Bush Administration achieved success on commercial

agreements with China only through the threat of economic sanctions.)

4) This Committee might urge the Administration to post additional Customs officials in China to monitor compliance with the MOU. One Customs Service official posted in the embassy in Beijing cannot possibly be expected to monitor compliance effectively. The Chinese government must have its own doubts about the seriousness of U.S. intent in light of such a token effort.

5) The Administration should consider requiring all U.S. importers of products from China to certify that their goods were not, in whole or in part, made with prison labor and require that they stipulate all of the sources of production or manufacture in China (including subcontractors). This would function somewhat as a deterrent, and might provide the Customs Service with information that would be highly useful for their investigations.

6) The Administration, with support from this Committee and U.S. businesses, should actively support legislation outlining a "code of conduct" for U.S. companies operating in China, such as the bill introduced in the House last year by former Rep. John Miller and passed by the Senate in October 1992 (contained in the Export Administration Act, Conference Report.) Such a code should include a strict provision on prison labor exports, as well as other steps that U.S. businesses could take to promote human rights in China.

APPENDIX I

Statement by Xu Yiruo
for the House Foreign Affairs Committee
September 3, 1993

Background

My name is Xu Yiruo. I was born in Beijing on August 5, 1969 and attended primary and middle schools in Hefei, Anhui Province. When I was 18 years old, my family moved to Qingdao City, Shandong Province in eastern China, and in 1988, I entered the freshman year at Qingdao University, department of Chinese language. My parents teach electrical engineering at Qingdao University. Like them, I am a practicing Catholic.

In April 1989, I became actively involved in the student prodemocracy movement, serving as deputy chairman of the *Qingdao University Students Autonomous Federation (QUSAF.)* In mid-May, I went to Beijing to show my support for the student hunger-strikers in Tiananmen Square, and while there I joined the Beijing-based *Autonomous Federation of Students from Outside Beijing*. On the night of June 3-4, I was present on western Chang'an Boulevard and witnessed the military crackdown on the democracy movement. On June 16, I returned to Qingdao City, and four days later I was arrested on account of my prodemocracy activities and thrown into Qingdao No.2 Municipal Jail. After seven weeks, I was released on probation and allowed to return home and resume my studies. I remained under suspicion, however, and each month thereafter, I was summoned to the local police station and questioned about my latest activities.

In March 1991, Yang Hai, the former chairman of *QUSAF*, was suddenly arrested in Qingdao. Fearing arrest also, I decided to flee China and stowed aboard a cargo ship bound for

Hong Kong. Upon arrival on April 9, I was detained by Hong Kong police and held for the next 15 days. Despite my plea to be granted political asylum, I was then forcibly returned to China by the Hong Kong authorities. Upon re-entering China, I was seized by border police and held in a series of detention centers in Guangdong Province over the next month. On approximately May 20, 1991, I escaped from Zengcheng County Detention Center while out working in the fields, and then returned secretly to Qingdao.

On the evening of June 3, 1991 I wrote two small wall posters commemorating the second anniversary of the June 1989 crackdown - one was a poem, the other an essay - and pasted them up anonymously on the campus of Qingdao University. Four days later, the police came to my home, compared the handwriting on the wall posters with that of my diary and other personal documents and then took me away for prolonged questioning. A few days later, fearing further arrest, I fled to Beijing, where I made international telephone calls to Asia Watch and Amnesty International appealing for help. Directly after the latter call, however, I was seized by police while leaving the phone booth, and was then sent back under police guard for detention and interrogation at the Qingdao No.1 Municipal Jail. I tried unsuccessfully to escape en route to Qingdao, but was caught again by the police and beaten and shocked with electric batons. In October 1991, after several months in jail, I was sentenced without trial by the local police authorities to undergo two years of forced labor at the Qingdao Provincial No.1 Labor Re-education Center.

On February 16, 1993, I was released five months ahead of schedule, but only to find that I had been expelled from college and would not be allowed to graduate. I applied for numerous jobs, but was always rejected because of my record of political imprisonment. I then applied for a special permit to go to the Shenzhen Special Economic Zone in order to find work in the commercial sector, but the police refused to grant me this, again because of my record.

In early July of this year, urgently wishing to publicize my experience of repression by the government, I travelled to Beijing and made contact with the Beijing bureau chief of the *New York Times*. The story of my imprisonment, together with details of the forced-labor enterprises in which I was made to work producing goods for export, appeared in the *New York Times* on July 19. On July 27, I again escaped from China and I have now applied to be resettled as a political refugee in the United States.

Prison Conditions and Production Activities

1) Qingdao Jail. Between July and October 1991, I was detained at the Qingdao No.1 Municipal Jail where I was held together with 10 other prisoners in a cell of approximately 10 square meters in size.[1] There was a steel door at one end, with a gap underneath through which our food was handed in; an unscreened toilet and water tap next to it; a one-square-meter window, barred with steel rods, at the other end of the room; and a wooden floor, on which we had to sleep at night using cotton quilts supplied by our families.

Sanitation and hygiene in the cells was extremely deficient. Throughout my three months or more in the jail, none of the inmates was ever allowed a proper shower. Instead, we had to make do with just washing our hands and faces at the stand pipe. Mosquitos and fleas were a major problem, and since space was so limited that we had to sleep packed together side by side, it was impossible to get a proper night's sleep. Because of the severe overcrowding and the extreme heat in summer, moreover, skin diseases (particularly inflammations of the genital area) were rife.

---

[1] Qingdao No.1 Jail is located at No.25 Changzhou Road, South District, Qingdao City. Since I was technically being held under "shelter and investigation" (shourong shencha) regulations, I should have been sent to a special "shelter and investigation center," rather than to a jail (kanshou suo), which is supposed to be used only for those awaiting trial under the criminal law and for those sentenced to death and awaiting execution.

Everyday, Sundays included, all prisoners were made to work for on average of 17 to 18 hours assembling electric Christmas tree lights. All work was performed on the cell floor and we were allowed out of the cell for only 15 minutes each day for a short period of fresh air. On the upper floor of the jail (I was held on the ground floor) were held even more serious offenders, many of them scheduled for execution, and they were usually kept shackled and handcuffed. Sometimes during the "exercise" period, I would see them being carried out of the cells, often in a most pitiful state, and laid out on the balcony for some fresh air and sunlight.

Among the prisoners in my cell were several people charged with committing rape, and one who had been convicted of murder and was awaiting execution. He was kept in leg irons and handcuffs throughout my time at the jail, and the restraints were never removed, not even at night. Nonetheless, he was also made to assemble Christmas tree lights, just like the rest of us, although the handcuffs meant that he had to work much more slowly. There was also one overseas Chinese who had been charged with espionage offenses.

Cell discipline, as elsewhere in the jail, was maintained by a "cell boss" - a prisoner who had gained favor with the guards and was entrusted with the job of reporting on the other inmates and forcing them to work harder. For this, the cell boss was given larger food rations and was exempted from most manual labor tasks. Medical attention was available only for the most conspicuous illnesses or injuries, such as when on one occasion a 17-year old prisoner in my cell had his arm gashed open during a beating by the cell boss, and a medical orderly came in and bandaged the wound. Otherwise, prisoners had to suffer in silence.

The daily regimen at Qingdao No.1 Jail was as follows:

• Reveille was at 5.00 AM, with ten minutes allowed to wash from the stand pipe and clear away the bedding.

• 5.30: Cell door was opened by guards and the day's supply of electrical parts for assembly was handed in. Work began immediately.

• 6.30: Breakfast - one bowl of millet gruel and one corn bun per prisoner - was handed into the cell. We were allowed ten minutes at most to eat, then resumed working. Anyone seen as slacking on the job was usually given a beating by the cell boss.

• 11.30: Lunch was handed into the cell - one bowl of millet gruel and a couple of boiled aubergines each. Allowed ten minutes to eat, then back to work again.

• 2.30: Prisoners were let out of the cell for 15 minutes' fresh air in a small outside yard. But the whole period was always spent sitting on the ground, prisoners grouped in a tight circle and continuing to assemble Christmas lights. No physical exercise or other activities were permitted. Then back to the cell again.

• 6.00 PM: Ten-minute break for dinner, consisting of corn bun, aubergines and occasionally some cucumber. Then resumed working until 11.00 or 12.00 at night. When deadlines for large orders approached, we had to work even longer hours, and on one occasion in mid-September 1991, we were made to work continuously for three days and nights.

My first impression of Qingdao No.1 Jail, upon being led down the corridor to my cell after arrival there, was one of surprise at seeing piles of small electric light bulbs, electric cables, all kinds of other production components and boxes of finished assembled goods lying heaped in every available corner of the jail, including in all the corridors, waiting to be shipped out to customers. I soon learned, moreover, that production and marketing was the number one concern of the prison authorities. I was told that prisoners were also sometimes made to engage in such tasks as textile preparation and cotton thread processing, but during my time at the jail our whole working day was taken up with assembling Christmas tree lights for export. The work was so unremitting that before long, the skin on my fingers became raw and bleeding, and, like all the other inmates, I had to bind my fingers with small pieces of cloth in order to be able to continue working.

On numerous occasions, the jail governor and other officials informed us that the goods we were making were for export, and they stressed that this was a "glorious production task" which generated foreign currency for the state. Our success in reforming ourselves, they said, would be gauged by the extent to which we maintained high levels of product quality and output. The Christmas tree light components, moreover, were all sent in from abroad. Most of the small, multi-colored electric light bulbs came in plastic packages bearing the English words "U.K. Chemical Co. Ltd." (others bore the label of a Hong Kong company, the name of which I've forgotten); the white plastic shades that we had to attach to the bulbs came in packages labelled (in Chinese characters) "Taiwan Ri-Mei[2] Electrical Co. Ltd"; and other components still were labelled in Korean writing, which I could not understand. The prison officials never revealed to us the names of the countries to which the finished Christmas tree lights were being exported.

---

[2] The characters "Ri-Mei" are ambiguous and could have various different meanings, namely "Sun Beautiful," "Japan Beautiful," "Sun American" or even "Japan-U.S." The correct translation in this particular case is not known.

2) Shandong Provincial No.1 Labor Re-education Center. Known to the outside world as "Shandong Province Shengjian August 3rd Factory," the Provincial No.1 Labor Re-education Center is located in the hilly outskirts of Wang Village, Zhoucun District, which lies in the northwest corner of Shandong's Zibo Municipality. The "August 3rd Factory" is a vast forced labor facility consisting of five different production plants or so-called Sub-Schools (SS).[3] SS No.1 is a carbon factory, where the prisoners produce graphite electrodes; SS No.4 is a refractory/heat-resistant materials *(naihuo cailiao)* production plant; SS No.5 is a hard grog clay *(yingzhi niantu)* mining facility; SS No.6 is a women prisoner's re-education center (main production activity: garment assembly); and SS No.7 is a sulpher-bauxite plant. (SS Nos.2 and 3 were apparently disbanded some years ago but are thought to have been subsequently converted into young offenders' institutes.)

For prison administrative purposes, each SS is known internally as "No.1 Brigade," "No.2 Brigade" *(yi, er dadui)* etc., and each brigade is subdivided into several different "squadrons" *(zhongdui)*. The average size of a brigade is between 500 and 1,000 inmates, and each squadron holds around 120 inmates.

The August 3rd Factory also maintains two "scientific research centers - one of which, as one of the guards once told me, has attracted joint-venture style investment from an American company (the guard mentioned that his son worked there and earned a much bigger salary than he did.) The main product of these research centers is high-grade electronic semiconductors. But since the research centers are located about a mile away from the factory, near the labor reeducation administrative offices, I know nothing else about their activities.

---

[3] From 1986 onwards, the central government ordered that all labor re-education centers were to be renamed "special schools" *(teshu xuexiao.)*

When I was first transferred to the August 3rd Factory in October 1991, I was placed in SS No.1, the carbon plant. But a few days later I was moved to the first squadron of SS No.5, which is regarded as a softer option than most of the others, and I remained there until my release in February 1993. I was housed in a cell with 15 other prisoners; it was much more spacious than the cell at Qingdao Jail and we slept in bunk beds. However, the manual labor, consisting of mining work deep underground, was even more intensive and exhausting than that at the jail. The daily routine was as follows:

• 6.00 AM: Reveille, wash at stand pipe and tidy up the cell. Breakfast of millet gruel and steamed wheat bun.

• 7.30: Two hours of classes: one on mining production technology and mine safety measures, and the other a political indoctrination session at which we would usually study the latest Communist Party directive or Party leader's speech. (Topics also included "how to oppose peaceful evolution," and when the government's "White Paper on Human Rights" was published we had to study that too.)

• 9.30: Lunch of cabbage and turnips. Each person issued several steamed wheat buns, to be taken down into the mine.

• 10.00: Enter the mine with the prisoners' workteam, then walk for around half an hour underground, down long low tunnels to a depth of around 300 meters, until we reached the mineface. Then begin hewing the hard clay from the mineface using pickaxes.

• Several hours later: whenever a break occurred in the flow of rail cars which continuously carried away the mined clay, we would grab a few moments to eat the steamed buns issued to us after morning classes. Resume mining work right away. No further breaks.

* 11.00 PM or 12.00 midnight: finish work and take a quick shower at a stand pipe inside the mine. Guards conduct a name check to ensure no one has escaped, then return aboveground to the prisoners' dormitory area. Quick meal of turnips, cabbage and steamed buns, then lights out and fall quickly asleep.

The only medical service available at SS No.5 was a small clinic staffed by several former intellectuals who had been imprisoned as "rightists" in 1957 and then retained at the mine ever since. They provided rudimentary care such as administering injections or dispensing antibiotics when needed. There was however, a hospital attached to the August 3rd Factory's administrative headquarters, and serious cases were generally sent there. Many industrial accidents occurred at the mine while I was there, including one man who was crushed to death in a mining tunnel collapse. Another man was left permanently disabled after his urinary tract was severed in a collision with a mine rail car. Several others lost feet or fingers in industrial accidents in the mine. Of these, the only one temporarily allowed out of the re-education center "on bail for medical treatment" was the man who suffered the urinary tract injury. All the others had to remain in the center until completion of their sentences.

In April 1990, the Ministry of Justice designated the August 3rd Factory as a national model and exhorted labor re-education units throughout the country to "learn from the August 3rd spirit." One aspect of the "model" was meant to be the principle of "civilized wardering," meaning humanitarian treatment of inmates. But in fact, only lip-service was paid to the so-called "six-character policy" of "educate, inspire and save" and most alleged infringements of prison rules were simply punished by a beating from the guards. Beatings were given for such things as failure to complete one's production quota, insubordination to the guards or talking to prisoners from other squadrons. Another political prisoner held at the mine, Shan Zhenheng, a student from the history department of Beijing Normal College who had almost spent two years in jail after June 1989 on account of his prodemocracy activities, was caught and resentenced in 1991 after submitting a protest petition to the National People's Congress. Unable to endure the harsh conditions at the August 3rd Factory, he tried to commit suicide shortly after arrival by slashing his wrists. Shan is still there now, working day in and day out at the mineface.

Particularly harsh treatment was given to those inmates who continued to insist on their innocence, for example by writing appeal letters to the procuratorial departments. They were regarded as "resisting reform," and at the very least, they received a beating from the guards. Often they were also sent for periods of punishment at the center's "strict regime unit" *(yanguan dui)*, where they would be placed in solitary confinement cells and given beatings by other prisoners specially assigned to this task by the authorities. Any inmates caught attempting to escape were also sent to the strict regime unit and automatically had their sentences increased by two years.

The principal type of clay produced for export at SS No.5 is a rare variety of flint clay *(jiaobaoshi.)* The mined product is processed, along with other fire-resistant clays, at SS No.4 (the refractory/heat-resistant materials plant.) Most of the flint clay produced at SS No.5 is then exported to Japan.[4] The mine itself was first built by the Japanese in the 1930s, and at some point in recent years Japanese businessmen apparently resumed trading contacts with the mine. On at least two occasions during my time at the August 3rd Factory, moreover, it was announced over the re-education center's closed-circuit television network that delegations of Japanese businessmen had visited the factory to negotiate further export deals.

---

[4] The finished product is thought to be called "calcined flint clay" *(shu jiaobaoshi.) New York Times* journalist Nicholas Kristof, after failing to find any reference to "jiaobaoshi" in any Chinese technical dictionary, telephoned the Shandong Province Metals and Minerals Import and Export Corporation and enquired about the product: "*Jiaobaoshi? Officials at the corporation knew all about it, and they explained*

As a national "model labor re-education unit," the August 3rd Factory also received visitors from other Western countries. In November 1991, for example, a delegation of Austrian police officers was shown around SS No.5. All the prisoners were evacuated well in advance, however, and the foreign delegation members were shown only the newly spruced-up dormitory building and the surrounding area. They were not taken to see the clay mine or any of the other production facilities, and of course they were allowed nowhere near the punishment block or the solitary confinement cells.

In September 1992, eight Christians were sent to SS No.5. All were peasants, of around 35 years old (except for one old man of about 70 years old). They were members of an underground "house church" group, smashed by the police. I only know the name of one member of the group, Guo Chengji, 36 years old, because he was in the same squadron of SS No.5, as myself. I saw his sentencing document; he was convicted solely on ground that he belonged to the "Shouters" Christian sect.

---

that it is a kind of fine clay used to make heat-resistant oven ware. They said it was mined at Zibo - the site of the labor camp [i.e. August 3rd Factory] - and exported to Japan and occasionally to the United States." ("Export of Prison Goods Seems to Continue," *NYT*, 7/19/93.)

**AMERICAN
FOREST &
PAPER
ASSOCIATION**

[illegible]
[illegible]

INTERNATIONAL

STATEMENT OF
THE AMERICAN FOREST & PAPER ASSOCIATION (AF&PA)

SUBCOMMITTEE ON TRADE
WAYS AND MEANS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

THE UNITED STATES - CHINA ACT OF 1994 (H.R. 4590)

The American Forest and Paper Association (AF&PA) strongly supports the extension of Most Favored Nation (MFN) trade status to the People's Republic of China (PRC) and endorses Presi[illegible] Clinton's decision to delink human rights from the annual extension process. We oppose any measure that will undermine the future ability of our two nations to engage "in a growing web of political cooperation and contacts."

AF&PA represents approximately 130 member companies and related trade associations (whose membership is in the thousands). Our members grow, harvest, and process wood and wood fiber, manufacture pulp, paper and paperboard products from both virgin and recovered fiber, and produce solid wood products. As a single national association, AF&PA represents a vital national industry which accounts for over 7 percent of total U.S. manufacturing output.

Reprinted from H.R. 4592, United States-China Act of 1994. Hearing before the Subcommittee on Trade of the Committee on Ways and Means, House of Representatives, 103rd Congress, 2nd Session, 1994. p. 166-167; 174-176; 197-199.

The U.S. forest and paper products industry employs about 1.4 million people, and ranks among the top 10 manufacturing employers in 46 states, with annual wages paid of about $46 billion. The industry generates sales of about $200 billion annually. With exports of $17 billion in 1993, the industry makes an important contribution to the U.S. balance of payments. Exports have been, and will remain, the future growth segment for our industry. The U.S. forest products industry has been ranked among the most competitive in the world.

The PRC represents a significant market for U.S. forest products and extension of the PRC's MFN status can lead to significantly enhanced export opportunities for U.S. producers of wood, pulp and paper products. Because China is deficient in forest resources, with limited potential for expanding its own fiber supply, its need for imported wood, pulp and paper products is expected to increase substantially as it pursues its commitment to economic and industrial expansion.

In 1993, U.S. exports to China of wood products totalled $106 million. In the same year, exports of pulp, paper and paperboard products exceeded $155 million, in addition to more than $14 million worth of recovered paper for recycling by China's paper and paperboard mills.

The China market is especially important for some specific product lines. For example, it represents the largest national export market for U.S. kraft linerboard. In 1993, kraft linerboard exports to China were valued at more than $80 million. In addition, a major portion of U.S. kraft linerboard exports to Hong Kong – almost $100.5 million – is reshipped to China.

The U.S. forest products industry is highly competitive in international markets. Our international competitors are very aggressive and they would benefit from continued unilateral attempts to condition expanded trade and economic cooperation on U.S. judgements regarding China's human rights performance:

- **Denying U.S. importation of specified "nonqualified" Chinese-made goods will be impossible to enforce and likely will lead to retaliation against U.S. goods exported to China.**

The structure of China's economy makes it virtually impossible to distinguish goods produced by a state-owned enterprise from those that are not. Nonetheless, HR 4590 specifically identifies wood and paper products as "nonqualified" goods. Thus, although the amount of wood and paper products imported into the United States from China is relatively insignificant, our industry becomes a key target for retaliation.

- Like our colleagues in other sectors of American business, we believe the imposition of a U.S. Government-sponsored code of conduct for companies doing business in China would be particularly harmful to our competitive position.

Any formalized set of principles governing U.S. business activities -- even if it is voluntary -- will give competitor nations the advantage in the China market. It will impose restraints on U.S. businesses not shared by our competitors, and will cause China to look for other suppliers, for the following reason: A set of principles that touches on highly sensitive political activities will undermine individual companies' efforts by creating the appearance in China that U.S. companies, in violation of Chinese law, are acting as agents of our government. Once again, the end result will be to penalize U.S. companies.

Our members who do business in China see tangible proof every day that China's free market economic reforms have led to expanded freedom and improved standards of living for the Chinese people. We share the President's conviction that America's commercial engagement with China must continue. U.S trade and investment are important long-term positive forces for human rights and democracy. Any action that would destabilize the ability of American companies to trade and invest in China would actually diminish our effectiveness as "agents of change," to the detriment of our mutual goals.

As President Clinton pointed out when he extended China's MFN status, the linkage of trade and human rights is a policy that has "outlived its usefulness" and only threatens American exports, jobs, and national security.

Thank you for your consideration of our views.

pro-mfn.rm

STATEMENT OF ESTRELLITA JONES, AMNESTY INTERNATIONAL USA

My name is Estrellita Jones. I coordinate the Asia program in the Washington Office of Amnesty International USA. I wish to thank the Committee for the opportunity to submit this statement today about the current status of human rights in the People's Republic of China and in Tibet, US human rights policy regarding China, and recommendations to the Clinton Administration.

Amnesty International does not take a position on whether to link human rights with any type of sanctions. Therefore we do not take a position on HR 4590, the U.S.-China Act of 1994.

However we do strongly advocate ending human rights abuses in China. Accordingly we have actively pressed the Clinton Administration to pursue a strong, clear human rights policy towards China.

President Clinton to his credit acknowledged this past May that China did not achieve overall significant progress in key human rights areas as outlined in his Executive Order. However nothing could have been further from the truth when the President cited as "progress" China's "adherence to the Universal Declaration of Human Rights" A statement from a Chinese official supporting this Declaration does not translate into progress.

Despite rapid economic changes in recent years in China, which has led to increased freedom and some relaxation of social controls, there has been no fundamental change in the government's human rights practices. Dissent in any form continues to be repressed. In fact, recent regulations passed into law this year threaten to further squash freedom of speech and association and religion. In addition, since September 1993 there has been an unprecedented rise in death sentences and executions, including for such non-violent offenses as theft and embezzlement. In 1993, 77% of the world's executions were carried out in China; 2564 were sentenced to death and at least 1419 people were executed. Even these shocking figures probably fall drastically short of the true number, which Chinese officials guard as a "state secret." This, coupled with the widespread practice of unfair trials, makes use of the death penalty particularly heinous.

Current Events

Let me cite a few recent events that highlight the seriousness of the human rights problems in China and Tibet today:

--Last month, a twenty-year-old Tibetan nun, Phuntsog Yangkyi, died in a police hospital, reportedly as a result of injuries sustained after a severe beating by prison guards for singing nationalist songs with other nuns on February 11, 1994. Phuntsog Yangkyi was serving a five-year sentence for taking part in a pro-independence demonstration on February 3, 1992.

--On July 14, a major political trial began in Beijing to try the fourteen prisoners of conscience who have been detained for more than two years on charges of "counter-revolution." This is the first major political trial in Beijing since 1991 and the defendants are the largest group of prisoners of conscience to be jointly tried in many years. The trial has been postponed several times since September 1993, apparently due to foreign policy considerations, and will be a test of how the authorities are prepared to deal with political dissenters in the future. The verdict is not expected for another two weeks, although in China, the verdict is usually decided before the trial by political authorities.

—press the PRC government to make headway in its talks that would allow access by the International Committee of the Red Cross to detention centers in the near future.

—press the PRC to allow Tibetan women to attend the World Conference on Women in Beijing next year.

—urge the PRC to undertake basic systemic reform in order to end human rights abuses. This includes prosecuting those committing torture and taking steps to ensure fair trials.

I enclose a summary of our recommendations submitted to the Administration a year ago. They are as relevant today as they were last year.

Thank you, Mr. Chairman.

Amnesty International's Recommendations for Improving Human Rights in China

February 1993

China's human rights record is abysmal.

Below are Amnesty International's human rights concerns in China, and specific recommendations the government of the People's Republic of China can implement to improve its human rights record.

At the present time there is much debate in the Congress and Administration about what guidelines to establish by which to monitor any progress in the human rights situation in the PRC.

We urge the U.S. government to ensure that the recommendations below become part of the basis for evaluating efforts by the Chinese government to improve its human rights practices.

Systematic Use of Torture

Torture of detainees is endemic in Chinese detention centers and prisons; torture is more widespread now than a decade ago. Although China became a party to the UN Convention Against Torture in 1988, the government has not taken effective measures to diminish the risk of prisoners being tortured or ill-treated.

To end torture:

- Grant detainees access to lawyers, relatives and doctors of their choice immediately after detention and regularly thereafter.
- Introduce fundamental legal safeguards for prisoner's rights; and a mechanism to ensure these safeguards are applied.
- Establish an independent national commission of inquiry into torture to undertake a thorough investigation of the circumstances in which torture occurs.
- Ensure that alleged torturers are prosecuted whenever there are reasonable grounds to believe that an act of torture has been committed.
- Introduce human rights training for all officials involved in arrests, interrogation of suspects and the administration of justice. As part of such training, it must be made clear that torture is prohibited under international law and that limits must be placed on the use of instruments of restraint, police implements and weapons.
- Open detention centers to inspection, by the International Red Cross and other international humanitarian groups.

Lack of Due Process

Few safeguards exist in China to ensure fair trials. Legal scholars within China have called for an end to the near-universal practice of "verdict first, trial second." Thousands of political prisoners do not have access to lawyers of their own choosing, do not meet with their government-assigned lawyers until several days before the trial, sometimes until the trial itself, and cannot call witnesses for the defense.

Hundreds of thousands of Chinese are subjected to "administrative detention," a system of imprisonment without trial for a term of a few days to several years. Anyone considered a "threat to public security" but not legally a criminal can be subject to "administrative detention."

To Ensure Due Process:

- Implement trial procedures consistent with international standards for fairness, as set out in the International Covenant on Civil and Political Rights. Review the system of "verdict first, trial second" to eliminate this practice.
- Allow international observers to attend trials.
- Review the system of administrative detention with the intent to repeal laws used to detain political or religious dissidents without charge or trial. Administrative detention should not be used to circumvent the safeguards of a fair criminal justice system.
- Thoroughly review the cases of those in administrative detention and release uncharged political detainees if they are not to be charged with a recognizable crime and given fair and prompt trials.

Accountability for Extrajudicial Killings

Over 1000 people were killed in the wake of the Tiananmen Square incident of 1989; in Tibet, scores were killed or injured in the last few years during demonstrations, many of which were non-violent.

To End Killings by Security Forces:

- Issue clear instructions to law enforcement officials against the use of firearms or lethal force, except in situations involving imminent threat to life.
- Independently and impartially investigate reports of killings by security forces in China and Tibet and make public the methods and results of the investigations.
- Provide compensation to victims of killings.

Prisoners of Conscience

Since 1989, thousands of people have been detained and sentenced for expressing or pursuing political views or religious activities. Victims include Tibetan nationalists and members of Muslim ethnic nationalities in Xinjiang who took part in demonstrations advocating independence. Hundreds of religious prisoners, particularly Christians, are detained for three years or more in "administrative detention" for preaching, distributing religious material, or attending services at underground "house churches." Of the pro-democracy demonstrators arrested since 1989, hundreds, possibly thousands are still detained. Many are serving extremely long sentences, including life terms.

To end the practice of detaining prisoners of conscience:

- Unconditionally release prisoners of conscience, including prisoners held since the early 1980's as well as those detained in connection with the demonstrations that have taken place since 1989.
- Account for the thousands who have been detained over the last several years in connection with demonstrations and political activities.

Use Of The Death Penalty

Defendants can be put to death for such offenses as theft, embezzlement, highway and train robbery and murder. The last 2 years have seen a dramatic increase in the use of the death penalty in China. On January 9, 1993 alone, at least 336 death sentences were handed down; 62 executions took place that day. During the month of January 1993, 1891 death sentences were handed down; 1079 persons were executed. The true figures of death sentences and executions are believed to be much higher.

The rise in death sentences and executions is partly due to the series of anti-crime campaigns launched by the government since the 1989 crackdown against pro-democracy protesters.

To end the death penalty:

- Ensure prisoners charged with an offence punishable by death are guaranteed free access to lawyers of their choice and to fair trials, and that rights of accused are protected at all stages of the judicial process.
- Ensure those sentenced to death have the right to seek pardon or commutation of sentence.
- Stop such degrading and inhuman practices as mass sentencing rallies and the parading of prisoners prior to execution.
- Ensure the scope of the death penalty does not extend beyond the "most serious crimes"; take steps towards total abolition of the death penalty, including restriction of the number of offences punishable by death.

BEST COPY AVAILABLE

STATEMENT OF WILSONS THE LEATHER EXPERTS IN OPPOSITION TO H.R. 4590, THE UNITED STATES-CHINA ACT OF 1994

Wilsons The Leather Experts, a major retailer and importer of leather apparel, strongly opposes H.R. 4590, the "Pelosi sanctions bill," on the grounds that its enactment would (1) undermine the President's leadership on U.S.-China policy, (2) be counterproductive to U.S. human rights objectives, (3) limit the ability of the U.S. to further its trade and nuclear non-proliferation agendas, and 4) create an administrative nightmare because its provisions are unworkable. Given the Clinton Administration's clearly enunciated and comprehensive U.S. policy toward China, which sets forth U.S. objectives and a strategy of engagement to achieve those objectives, legislation on this subject is inappropriate and unnecessary and only serves to prolong a divisive debate.

About Wilsons

Wilsons has a strong interest in this issue. With 550 stores in Middle America malls throughout 38 states, and more than 8,000 employees (which expands to 11,000 during the Christmas season), serving predominantly low to middle income consumers, U.S. relations with China have a substantial impact upon our business.

Under most-favored-nation (MFN) duty rates, imported leather apparel enters the United States at a six percent duty rate; without MFN status, the duty rate rises to 35 percent. That differential would be enough to cost Wilsons at least 25 percent of its business. For example, one of Wilsons' most popular winter coats, a man's cowhide jacket with a retail price of $199 during the 1993/94 winter season, would carry a price tag of almost $270 if MFN duty treatment were not available. Needless to say, many Wilsons customers, who are extremely price-conscious, could not afford the higher price. As Wilsons sales decline, so would the number of Wilsons stores and employees.

Wilsons imports the majority of its leather apparel from China. It does so as a matter of necessity; other sources of supply of quality merchandise in the quantities and at the price points essential to Wilsons' business are extremely limited. Not that long ago, much of our sourcing was from Korea. However, as Korea's economy developed, many of its workers were provided with the opportunity to move to higher paying jobs in the service and high technology sectors. As a result, many of the companies with whom Wilsons had been dealing in Korea set up ventures in China, using Chinese labor. Wilsons has followed its long-time suppliers to China.

Notably, in many instances, the hides being used are U.S. sourced (although they are usually tanned and finished outside the U.S., in locations other than China). Thus, it is not only Wilsons' jobs, facilities and customers that are at stake here, our suppliers have much to lose as well.

The President's Leadership Should Be Followed

Since 1989, U.S.-China trade relations have been precarious, a situation which has placed Wilsons' business in a state of virtually perpetual uncertainty. This year, finally, President Clinton has created an opportunity to move our relationship with China forward, to the benefit of the Chinese people and the United States, including both U.S. businesses and U.S. consumers. Rather than second-guessing the President's decision, or attempting to oversee the Administration's policy-making apparatus, the Congress should respect the President's leadership and provide the Administration with the time to prove that its policy of comprehensive engagement with China is effective.

The President's decision was not easily reached, but it was obviously well-considered. He recognized that neither the threat of or actual imposition of trade sanctions is the best course for advancing the cause of human rights and that the linkage between trade sanctions and human rights reform should be dropped. The additional sanctions that he did impose upon China were targeted to specific U.S. concerns, arms and ammunition. He also set forth an agenda of comprehensive engagement, and increased support for activities that will further permeate the Chinese society with American thinking, such as expanded radio broadcasts into China.

In the face of the President's own Executive Order of May 28, 1993, the decision to de-link conditions on trade and human rights reform this May was a bold one. It was a decision that finally acknowledged that the link between trade and human rights can and should be a positive linkage, not a negative threat or a punishment, because the very existence of trade will promote human rights and will give us the ability to maintain pressure on a broad range of issues. The President made clear that the recognition that sanctions are not appropriate to address human rights concerns did not mean that his Administration would not pursue human rights reform. To the contrary, the President committed to maintaining the pressure for human rights reform by broadening the dialogue, continuing to push for prisoner visits by the International Committee of the Red Cross and for discussions between Beijing and the Dalai Lama on Tibet, and by committing to seek multilateral support.

Trade Sanctions Are Counterproductive

Wilsons is confident that the President was correct when he determined that engagement rather than sanctions is the means for promoting change within China. On all fronts, including human rights, trade, and national security concerns, the U.S. is far more likely to make inroads if it maintains its relationship with China. There can be no question that the sanctions called for by the Pelosi bill would only mean that engagement would be curtailed, and such curtailment would limit the ability of the U.S. to influence Chinese thinking and Chinese actions.

Yet, the presence of U.S. companies, with American values to impart to the Chinese people, is probably the most effective means of achieving human rights reform in the long run. Human rights reform must be a long-term goal. "Significant progress" in the short-term is not a reasonable goal, however laudable. While frustration over the slowness of the process is understandable, sanctions would unquestionably further slow the process by limiting the ability of the U.S. Government and U.S. companies to influence and mold the process.

The Pelosi Bill Thwarts Other U.S. Objectives

It is inevitable that the imposition of the broad trade sanctions on China required by the Pelosi bill would result in retaliation by the Chinese against U.S. exports and a disinclination by the Chinese toward continued negotiations on trade objectives being pursued by the U.S., such as market opening and enforcement of intellectual property protection laws. While our competitors in Europe and Japan would gain further footholds in the vast Chinese market, American firms would be left behind. Any market openings and improvements in trade rules and their enforcement would inure to the benefit of others, not to U.S. businesses, who would be precluded from participating as a result of Chinese retaliation. The pain to the Chinese Government as a result of U.S. sanctions would be minimal, and would inevitably be overcome by the diversion of trading opportunities to our competitors. It is the U.S. that would be isolated by trade sanctions, not the Chinese.

BEST COPY AVAILABLE

Without a continuing dialogue with the Chinese, and a relationship that is built upon engagement rather than confrontation, China is also unlikely to be willing to cooperate with the U.S. on issues such a nuclear non-proliferation. China's support non-proliferation issues, including resolution of the North Korea nuclear issue, is far from certain, but is far more likely if our two countries are engaged and not in the process of retaliating against one another.

The Pelosi Bill Is Unworkable

The Pelosi bill has been falsely painted as a compromise bill; supposedly an improvement over past conditions bills that falls short of complete revocation of MFN status for all Chinese products of state enterprises. As a practical matter, however, H.R. 4590 is virtually indistinguishable from the conditions bills introduced during the 102nd Congress. It does not strike any middle ground. Its mandatory sanctions are sweeping in scope and impossible to administer.

Wilsons has no reason to believe that its suppliers in China are using facilities in which the People's Liberation Army has an interest. Further, Wilsons' leather apparel is not within one of the Harmonized Tariff Schedule chapters described by the bill. Yet, Wilsons cannot be 100 percent certain that its products are outside the scope of H.R. 4590's sanctions. The fact is that Wilsons would have no way of knowing whether the PLA has an ownership interest in any facility in which leather apparel is produced or through which these goods are exported to the U.S. If Wilsons has no way of knowing this, how are U.S. Customs Service officials going to be unable to make such a determination?

Clearly, the determinations called for by the Pelosi sanctions bill cannot be made, and all incoming trade from China, including Wilsons' goods, would likely be impeded as the U.S. Customs Service struggled to cope with unworkable directions from the Congress. What can be stated with certainty is that the Chinese would retaliate, and the entire trading and diplomatic relationship would deteriorate dramatically.

Conclusion

Wilsons commends the President's decision, announced on May 26, 1994, to renew China's MFN status without conditions while pursuing of policy of comprehensive engagement. Legislation contradicting the President's announced policy or otherwise seeking to manage the President's policy in this arena only undermines U.S. objectives with respect to China, and limits the ability of U.S. companies to make long range business plans. Wilsons urges the Congress to allow the President to follow through on the new policy, and to allow the process of U.S. influence, at all levels -- from individuals to businesses to U.S. diplomats, to positively affect the course of human rights reform in China.

Respectfully submitted,

Joel Waller, Chairman
Wilsons The Leather Experts
400 Highway 169 S., Suite 600
Minneapolis, Minnesota 55426
612-541-3100

Prepared by:
Brenda A. Jacobs
Powell, Goldstein, Frazer & Murphy
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
202-347-0066

August 4, 1994

China:
What Should be the Policy of the United States Government Toward the People's Republic of China?

An Annotated Bibliography on the 1995-1996 High School Debate Topic

Sherry B. Shapiro
Senior Bibliographer
Library Services Division

with the assistance of
Lee Burwasser, Bibliographic Assistant

April 1995

CHINA:

WHAT SHOULD BE THE POLICY OF THE UNITED STATES GOVERNMENT TOWARD THE PEOPLE'S REPUBLIC OF CHINA?

This bibliography contains annotated citations to journal articles, books, and government documents on the topic of United States policy toward the People's Republic of China. The majority of the citations were obtained from the computerized bibliographic databases created and maintained by the Congressional Research Service's Library Services Division. Other materials were selected from the collections of the Library of Congress and the Congressional Research Service.

This bibliography is divided into three major sections, representing the general debate topic and the two specific resolutions. The first section is a general one which addresses the history, politics, government, and culture of China. For the most part, citations to materials on Tibet, Taiwan, and Hong Kong will be found in this section. Additional materials on those areas are also located with the citations on the two debate resolutions which apply more specifically to those topics. For example, materials dealing with the economic situation in Hong Kong, post-1997, are found with the resolution dealing with trade and economic matters. The second section focuses on the resolution stating "that the United States Government should substantially change its foreign policy toward the People's Republic of China." This section also includes citations tomaterials on general aspects of United States foreign policy. The final section includes materials on the resolution which states "that the United States Government should substantially change its economic policy toward the People's Republic of China." Since the resolutions of this year's debate topic are interrelated, debaters are encouraged to scan related sections even if only preparing for one debate topic.

This bibliography is not intended to serve as a comprehensive list of all resources in the field of U.S. policy toward the People's Republic of China. It is merely an introductory guide to materials available on the debate topic. Many of the items included in this bibliography contain footnotes or their own bibliographies; these can be effective tools for finding supplementary material. More information on all of these subjects can be obtained through library research; a CRS prepared research guide follows the bibliography, with basic information for finding additional material. Search terms and strategies for research are provided in that guide, as are descriptions of basic resources for information retrieval. In addition, the research guide includes citations to reference sources in the area of U.S. foreign policy and U.S. policy toward the People's Republic of China.

CONTENTS

GENERAL 686

1. RESOLVED: THAT THE UNITED STATES GOVERNMENT SHOULD SUBSTANTIALLY CHANGE ITS FOREIGN POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA. 712

2. RESOLVED: THAT THE UNITED STATES SHOULD SUBSTANTIALLY CHANGE ITS ECONOMIC POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA. 741

GENERAL

Abelson, Philip H. Carey, William D. David, E. E., Jr.
China in transition. Science, v. 203, Feb. 9, 1979: 505-515.
"This issue includes accounts of a 3-week visit to the People's Republic of China by the AAAS Board of Directors. The aims of the visit and some cooperative arrangements that were made between AAAS and the Chinese Scientific and Technical Association are outlined on page 333. The following three articles are personal impressions of the editor of Science, the executive officer of AAAS, and the then president of the Board of Directors."

Ai Cunyi.
Ordinary people of the People's Republic. Beijing review, v. 32, Oct. 16-22, 1989: 28-30.
"On the eve of the 40th anniversary of the founding of the People's Republic of China, [Bejing Review] staff reporters have interviewed ordinary people from different trades. These interviews reflect various aspects of our republic's development, especially the widespread changes brought about by the ten-year reform."

Aijmer, Goran.
Changes in rural society in mainland China in the 1980s: anthropological perspectives and prolegomena to research. Issues & studies, v. 25, June 1989: 50-71.
Surveys changes in community structure, agricultural production, land ownership, family planning, and political leadership.

Alagappa, Muthiah.
Democratic transition in Asia: the role of the international community. Honolulu, East-West Center, 1994. 36 p. (East-West Center special reports no. 3)
Contents.--Ideals of governance.--The effects of international pressure.--Dynamics of the international system and domestic political change.--Prospects.

Andors, Phyllis.
The unfinished liberation of Chinese women, 1949-1980. Bloomington, Indiana University Press; Brighton, Sussex, Wheatsheaf Books, 1983. 212 p.
HQ1768 .A52 1983

Apter, David Ernest. Saich, Tony.
Revolutionary discourse in Mao's Republic. Cambridge, Mass., Harvard University Press, 1994. 403 p. JC491 .A58 1994

Asia 2000. Fortune, v. 126, Oct. 1992: 111-116, 118, 120, 122-126, 128, 131-132, 134, 137-138, 142.
Contents.--Asia 2000, by Louis Kraar.--China really is on the move, by Brenton Schlender.--A new China without borders, by Louis Kraar.--Will Japan rule a new trade bloc?, by Emily Thornton.--Asia's hot new growth triangle, by Louis Kraar.

Atkeson, Edward B.
The people's liberation army since Tiananmen Square: the rising Goliath of the East. Army, v. 44, Mar. 1994: 11-14.
Discusses the growth of China's army since 1989.

Bahl, S. K.
China's failure in Tibet--pulls and pressures of domestic politics. China report, v. 25, July-Sept. 1989: 259-289.
"It seems that the top Chinese leadership in Beijing, preoccupied with a plethora of problems on both the domestic and international fronts, could not pay adequate attention to the Tibetan problem . . . . With the hardliners under the leadership of Deng Xiaoping having gained ascendancy, the Dalai Lama may have to wait for better times to come."

Bailey, Paul John.
China in the twentieth century. Oxford; New York, B. Blackwell, 1988. 90 p. (Historical Association studies) DS774 .B27 1988

Banerjee, D.
PLA after the Tiananmen massacre. Indian defence review, Jan. 1990: 117-123.
"This article will look briefly at the backdrop to the pro-democracy movement and its crushing by the PLA. It will more closely analyse the part of the PLA played in this and its impact on China."

Banister, Judith.
The aging of China's population. Problems of communism, v. 37, Nov.-Dec. 1988: 62-77.
"In the 21st century, China's elderly, who have traditionally relied on their families for financial and personal support, will have far fewer near relatives to care for them than is the case today. Their care and support looms as a major problem in China's future."

Barnett, A. Doak.
After Deng, what? Will China follow the USSR? Washington, Johns Hopkins Foreign Policy Institute, School of Advanced International Studies, c1991. 23 p.
"The Foreign Policy Institute papers: new world–new directions." Concludes that China will probably not follow the path of the Soviet Union. "The answer, again, is: very probably not. The winds of change are having profound effects on China, pushing the regime to reform, but Communism in China is not on the verge of collapse. The process of reform, which began to transform China in the late 1970s, has suffered a serious setback since 1989, but it is bound to move ahead again in the future, after younger leaders assume the reins of leadership, if not before. If conservative Chinese leaders were to try to move the clock back by fundamentally reversing the reform process, they might provoke a hurricane comparable to that now sweeping the Soviet Union."

Communist China: the early years, 1949-55. New York, F. A. Praeger [1964] 336 p. (Praeger publications in Russian history and world communism, no. 152)
DS777.55 .B322

Barnouin, Barbara. Yu, Changgen.
Ten years of turbulence: the Chinese cultural revolution. London; New York, Kegan Paul International; Distributed by Routledge, Chapman & Hall Inc., 1993. 369 p.
DS778.7 .B37 1993
Publication of the Graduate Institute of International Studies, Geneva

Bayles, Deborah L.
The reunification of China: an examination of the legal systems of the People's Republic of China, Hong Kong, and Taiwan; student comment. Denver journal of international law and policy, v. 19, winter 1991: 443-466.
Examines "the legal systems of the PRC, Hong Kong, and Taiwan in light of the proposed 'one country, two systems' model of reunification in the hopes of determining whether irreconcilable differences exist which would prevent the eventual reunification of all of China."

Bays, Daniel H.
China enters the twentieth century: Chang Chih-tung and the issues of a new age, 1895-1909. Ann Arbor, University of Michigan Press, c1978. 295 p. (Michigan studies on China)
DS764 .B34 1978
A revision and expansion of the author's thesis, University of Michigan, 1971.

Bechtoldt, Heinrich.
Parallels and differentiations of reforms in Peking and Moscow. Aussenpolitik, v. 39, no. 2, 1988: 125-137.

Beeching, Jack.
The Chinese Opium Wars. 1st American ed. New York, Harcourt Brace Jovanovich, c1975. 352 p.
DS757.5 .B35 1975

Beijing dissident trials: leadership seeks to close book on Tiananmen. Washington, U.S. Foreign Broadcast Information Service, 1991. 13 p. (Analysis report FB AR 91-10004)

Beijing spring, 1989: confrontation and conflict: the basic documents. Edited by Michel Oksenberg, Lawrence R. Sullivan and Marc Lambert. Armonk, N.Y., M.E. Sharpe, 1990. 403 p. DS779.32 .B45 1990

Beijing's campaign to restore party authority in the countryside. Washington, Foreign Broadcast Information Service, 1991. 22 p. (Analysis report, FBAR 91-10011)

"Prompted by heightened leadership concern over the potential for peasant unrest and the need for more rapid increases in agricultural productivity, Beijing has launched a nationwide rural 'ideological education' campaign to enhance party authority in the countryside and to indoctrinate local cadres with 'socialist' values."

Benton, Gregor.

Mountain fires: the Red Army's three-year war in south China, 1934-1938. Berkeley, University of California Press, c1992. 639 p. HX418 .B46 1992

Berkley, Gerald W.

Comparisons and contrasts of the legal systems of the Democratic People's Republic of Korea and the People's Republic of China. Asian profile, v. 19, Aug. 1991: 293-302.

"On December 27, 1972, the Democratic People's Republic of Korea adopted a new, extensively revised constitution which remains in effect today. The constitution currently in operation in the People's Republic of China was promulgated on December 4, 1982 . . . . Relying primarily, but not exclusively, on these two documents, this paper will discuss the similarities and differences in the organizational structure and functions of the legal systems of both socialist countries."

Bhutani, V. C.

Tibetan aspirations. China report, v. 23, July-Sept. 1987: 311-317.

"The triumph of the communists in China once again brought into existence a centralized and cohesive force on the Chinese mainland, and this force immediately set about to revive its age old claims to dominion over Inner Mongolia, Sinkiang and Tibet . . . . The absence of any other power in the neighbourhood enabled the Chinese communists to walk into Tibet almost unchallenged . . . . The Chinese had in a sense 'educated' world opinion with regard to their claims to Tibet . . . . When the Chinese invasion came, the rest of the world . . . looked on with bored indifference or with confused and tacit approval."

Bingham, Marjorie Wall. Gross, Susan Hill.

Women in modern China: transition, revolution, and contemporary times. St. Louis Park, MN, Glenhurst Publications [c1980] 106 p. ("Women in world area studies.") HQ1767 .B56 1980

Examines the historical, social, and cultural roles of women in China, with an emphasis on the twentieth century.

Black, George. Munro, Robin.

Black hands of Beijing: lives of defiance in China's democracy movement. New York, John Wiley, c1993. 390 p. DS779.26 .B57 1993

Bray, John.

China and Tibet: an end to empire? World today, v. 46, Dec. 1990: 221-224.

"This article examines the historical roots of Tibetan nationalism and the local and international influences which will determine the course of Tibetan politics in the 1990s . . . . The incorporation of Tibet, with its distinct cultural and historical traditions, presents a major political challenge to the People's Republic of China."

Brick, Andrew B.

China two years after the pro-democracy demonstrations. Washington, Heritage Foundation, 1991. 5 p. (Heritage lectures 306)

"The current leadership, sporting show trials, self-criticisms, and massive propaganda campaigns, can suppress their people's will for change for a very long time. But, as China's history makes clear, there are limits to the indignities the Chinese people will endure."

Maintaining the upper hand: Peking's reform efforts and the Chinese Communist Party. Issues & studies, v. 65, Jan. 1989: 41-55.

"The Party has adopted modernization as its principal goal . . . . What Mao would have once regarded as 'taking the capitalist road' is explained as a necessity of reform:

the wide development of quasi-capitalist institutions . . . the expansion of private trade and material incentives . . . . How Communism figures in modern mainland Chinese society is an issue that the post-Mao leadership has relegated to the distant future."

—

The mandarin's new clothes: the Chinese search for modernization. Global affairs, v. 5, no. 4, 1990: 63-82.

"This article will examine the Chinese Communist Party's quest for China's national salvation. It will focus on Deng Xiaoping's reform efforts . . . specifically, Deng's quest to modernize China while steadfastly working to maintain the Communist Party's mandate to rule . . . . The article hopes to reveal . . . one of contemporary China's most perplexing legacies—the failure of a succession of governments to recapture a sense of China's historical preeminence and transform it into a modern state."

The Broken mirror: China after Tiananmen. Edited by George Hicks; with contributions by Asai Motofumi and others. Chicago, St. James Press, c1990. 526 p.
DS779.26 .B76 1990

Brook, Timothy.
Quelling the people: the military suppression of the Beijing democracy movement. New York, Oxford University Press, 1992. 265 p. DS779.32 .B76 1992

Brown, Cheryl L.
Incorporation vs. separation: an assessment of gender and politics in the People's Republic of China. Women & politics, v. 10, no. 1, 1990: 59-69.

"This article examines the approach to the study of women and politics in the People's Republic of China and assesses the impact of gender studies (or lack of it) on women and the larger society in China. The author argues that most materials for studying women and politics in China emanate from the office of the All-China Women's Federation, an appendage of the Chinese Communist Party, and not from political science textbooks. This approach, however, falls short of addressing major political and economic problems facing women of China."

Buckley, William F., Jr.
The great myth of 'One China'. Washington post, Jan. 18, 1988: A23.

Examines the situation in China and Taiwan and considers future issues relating to the "One China" concept.

Bundy, Agnes J.
The reunification of China with Hong Kong and its implications for Taiwan: an analysis of the "one country, two systems" model. California Western international law journal, v. 19, no. 2, 1988-89: 271-286.

"The Joint Declaration ratified by the governments of the United Kingdom and the People's Republic of China on May 27, 1985 signals the eventual transfer from British to Chinese sovereignty of Hong Kong Island, Kowloon, and the New Territories . . . . The Article will briefly analyze both the Joint Declaration and the Basic Law, which is to be the 'mini-constitution' that will guide Hong Kong into the twenty-first century. Following a discussion of the issues surrounding the 'one country, two systems' concept, the Article will conclude with an analysis of the impact that China's relationship with Hong Kong could have on its position towards Taiwan."

Carlson, Evans Fordyce.
The Chinese Army: its organization and military efficiency. Westport, Conn., Hyperion Press, 1975, c1940. 139 p. UA837 .C27 1975

Reprint of the edition published by the International Secretariat, Institute of Pacific Relations, New York, issued in I.P.R. inquiry series.

Carpenter, Robert Alexander.
Giant panda controversy. Buzzworm: the environmental journal, v. 1, winter 1989: 16-29.

Examines the controversy over the loaning of pandas by China to zoos in the West that want pandas for short-term exhibitions and longer-term captive-breeding programs; the World Widllife Fund (WWF) and factions within the American Association of Zoological Park and Aquariums (AAZPA) argue that pandas are better off and more likely to reproduce in the wild. Includes two sidebars: A brief giant panda natural history; Wilderness conservation efforts in China.

Carter, Alden R.
China past--China future. New York, Franklin Watts, c1994. 143 p.
DS736 .C227 1994

A history of China with an overview of life today and a look at its possible future, considering an increasingly young population which is dissatisfied with communism.

The Catholic church in modern China: perspectives. Edited by Edmond Tang and Jean-Paul Wiest. Maryknoll, N.Y., Orbis Books, c1993. 260 p. BX1665 .C382 1993

Chang, Chen-pong.
Communism in Mainland China. [Taipei, World Anti-Communist League, China Chapter, Asian Peoples' Anti-Communist League, Republic of China, 1987] 76 p. (Pamphlet (World Anti-Communist League. China Chapter); 300) HX418.5 .C435 1987

Communist China's problem with minority nationalities. Issues and studies, v. 24, May 1988: 8-11.

"Before their takeover of the Chinese mainland, the Chinese Communists advocated the right of self-determination of various nationalities as Lenin had done. Later on . . . they only recognized the right of self-government of minority nationalities and introduced the so-called 'regional autonomy of minority nationalities.' Up to the present, they have established five autonomous regions corresponding to the provincial level . . . . They have also set up some autonomous chou, autonomous counties, and autonomous hsiang in places inhabited by one or several minority nationalities."

Chang, Hsin-hsin. Sang, Ye.
Chinese lives: an oral history of contemporary China. Edited by W.J.F. Jenner and Delia Davin; translated by the editors and Cheng Lingfang and others. New York, Pantheon Books, c1987. 367 p. DS777.55 .C3675 1987

Author's name transcribed as "Zhang Xinxin."

Chang, Jung.
Wild swans: three daughters of China. New York, Simon & Schuster, c1991. 524 p.
DS774 .C3718 1991

Chang, Maria Hsia.
China's future: regionalism, federation, or disintegration. Studies in comparative communism, v. 25, Sept. 1992: 211-227.

"What remains in question today is how communist rule will end in China. Among the many scenarios suggested by China experts, Chu-yuang Cheng maintained that the regime on the Chinese mainland may well disintegrate under the stress of increasing regionalism."

The meaning of the Tiananmen incident. Global affairs, v. 4, fall 1989: 12-35.

"The bloody suppression of the pro-democracy movement on June 4 was only the latest in a series of blunders made by the Communist Party since 1949. That movement had its roots in a collection of economic, political, and social problems engendered by the past decade of liberalizing reforms under Deng Xiaoping. The immediate effects of Tiananmen, as well as systemic long-term problems, augur continuing crises for China."

Chang, Tsan-kuo.
The press and China policy: the illusion of Sino-American relations, 1950-1984. Norwood, N.J., Ablex Pub. Corp., c1993. 272 p. (The Communication and information science series) E183.8.C5 C426 1992

Chang, Ya-chun.
Communist China's difficulties in ruling Tibet. Issues & studies, v. 65, Jan. 1989: 110-127.

"Peking wishes to consolidate its rule over Tibet and develop this strategic border region . . . . The Tibetans remain obstinate and unruly . . . . The riots signify that the Chinese Communists are faced with serious challenges in Tibet. This article will discuss why Peking has failed to stabilise its control over the region, what its attitude is to the problem, what measures the regime is likely to take to solve it, and what the Tibetans' own wishes and expectations are."

Changing communism. World press review, v. 35, Jan. 1988: 13-24.
Partial contents.--'Reform' grips Russia and China, by Theo Sommer.--Updating 'das Kapital', by Abel Aganbegyan.--China's menu for change, by Louise Do Rosario.--China's socialism: 'a pathetic waste', by Enrique Chirinos Soto.

Chao, Chien-min.
T'iao-t'iao vs. k'uai-k'uai: a perennial dispute between the central and local governments in mainland China. Issues & studies, v. 27, Aug. 1991: 31-46.
Examines the PRC's political economy at the regional level. "The newly emerged localism has alarmed the political as well as academic communities in mainland China. Contentions between the central and local governments have been heightened. Protectionism has also reduced competitiveness. To combat regionalism, the State Council issued a circular urging enterprises to produce and distribute automatically, local authorities to implement financial and taxation policies enacted by the center, and free trade and free mobility of goods. The Peking government is also selling the idea of regional economic cooperation, reinvigorating state enterprises and suppressing local and individual businesses."

———
Transition from authoritarian rule: is Eastern Europe's today mainland China's tomorrow? Issues & studies, v. 26, Nov. 1990: 33-52.
"There are some reasons to be hopeful about the prospects for democracy in mainland China. Mainland China has adopted a comprehensive reform package that has thoroughly transformed the infrastructure as well as the way many people think. However, the society remains relatively isolated from the outside world. The present organizational and philosophical tendencies within the country seem to favor a more autocratic regime."

Chauncey, Helen R.
Schoolhouse politicians: locality and state during the Chinese Republic. Honolulu, University of Hawaii Press, c1992. 300 p. (Studies of the East Asian Institute)
LC94.C5 C454 1992

Ch'en, Jo-hsi.
Democracy wall and the unofficial journals. Berkeley, Calif., Center for Chinese Studies, Institute of East Asian Studies, University of California, 1982. 119 p. (Studies in Chinese terminology; no. 20)
PL1489 .S8 no. 20

Author's name transcribed as "Chen Ruoxi."

Cheng, Chaoze.
The challenge of population aging in Mainland China: a demographic accounting. Issues & studies, v. 29, Dec. 1993: 69-87.
"Since the early 1970s, mainland China's rapidly declining birth rate has led to a proportionally large older population. This trend should continue into the early twenty-first century. This study focuses on demographic concerns while attempting to analyse a cross-section of issues in mainland China."

Cheng, Chu-yuan.
Behind the Tiananmen Massacre: social, political, and economic ferment in China. Boulder, Colo., Westview Press, 1990. 256 p. DS779.32 .C46 1990

Cheng, Peter P. C.
Maoist military doctrine in the Vietnam War era. Asian profile, v. 18, Aug. 1990: 313-324.
"China maintained that the world situation increased the need for defense planning . . . . Official journals had charged . . . that the U.S., the Soviet Union, Japan, India, and now Indonesia had formed an 'unholy alliance' against China and was seeking to establish a cordon around her."

Cherrington, Ruth.
China's students: the struggle for democracy. London; New York, Routledge, 1991. 239 p. LA1133.7 .C515 1991

Cheung, Chieh.
Up in arms: the PRC modernizes its military. Harvard international review, v. 16, fall 1993: 52-53, 74, 76.
"China's fourth modernization, national defense, although less recognized, has also experienced considerable success . . . . The PLA has since followed four avenues of reform."

Children of the dragon: the story of Tiananmen Square. By Human Rights in China. New York, Collier Books; London, Collier Macmillan Publishers, c1990. 223 p.
DS779.32 .C47 1989

China. Current history, v. 93, Sept. 1994: whole issue (241-292 p.)
Partial contents.--Tiananmen and the future of China, by Liu Binyan.--America and China: back from the brink, by Joseph Fewsmith.--The US business community and human rights in China, by Richard Dicker.--Human rights in China, by James D. Seymour.--The search for civil society and democracy in China, by Tony Saich.

China. Focus (American Geographical Society), v. 42, spring 1992: whole issue (37 p.)
Partial contents.--Tourism in China and the impact of June 4, 1989, by Stanley W. Toops.--Population of China: large is not beautiful, by Mei-Ling Hsu.--The changing face of China from Mao to mini-skirts and Mercedes, by A. John Jowett.--Internal migration in the People's Republic of China, by Mark Eichen & Zhang Ming.--Incidents West of Lhasa, by Bruce Ryan.

China after Tianaman '89. Harvard international review, v. 12, fall 1989: 28-31, 34-38.
Contents.--Guangdong after Tiananmen, by Ezra F. Vogel.--China notes: business as usual, by John Frankenstein.

China after Tianamen. World policy journal, v. 6, fall 1989: 609-684.
Contents.--The roots of the political crisis.--Democracy with Chinese characteristics, by Dorothy J. Solinger.--Peasants and politics, by David Sweig.--The role of the military, by June Teufel Dreyer.--Red star over Hong Kong, by Frank Ching.--The failure of American policy, by Marie Gottschalk.

China among the nations of the Pacific. Edited by Harrison Brown; with a foreword by J. William Fulbright. Boulder, Colo., Westview Press, 1982. 135 p. (Westview special studies on China and East Asia) HC427.92 .C463
Papers from a symposium held May 19, 1980 at the National Academy of Sciences, Washington, D.C.

China at the crossroads. Edited by Donald Altschiller. New York, H.W. Wilson Co., 1994. (Reference shelf v. 66, no. 3)
This work should be available later in 1995.

China survey. Economist, v. 336, Mar. 18, 1995: 1-22.
This special survey includes information on the current political and economic situation in China.

China: a Jewish question. Economist, v. 33, Dec. 3, 1994: 46.
Discusses China's Jewish community.

China: forty years of revolution. World & I, v. 4, Oct. 1989: 22-127.
Contents.--The power game in Beijing, by Parris H. Chang.--Dying for Democracy, by Stanley Rosen.--Chinese students speak out.--The crisis of Marxism in China, by Su Zhaoshi.--Economic reforms and contradictions, by Bertrand Renaud.--Modernization and Democracy, by Gilbert Rozman.--Lowering expectations of China as a world power, by Harold C. Hinton.--What future after Tiananmen square?, by Thomas W. Robinson.

China: from the Long March to Tiananmen Square. By the writers and photographers of the Associated Press. New York, H. Holt, c1990. 317 p. DS774 .C438 1990

China: modernization in the 1980s. Edited by Joseph Y.S. Cheng. Hong Kong, Chinese University Press; New York, St. Martin's Press, 1990, c1989. 682 p.
DS779.2 .C445 1989

China: punishment without crime: administrative detention. New York, Amnesty International, 1991. 62 p.
Partial contents.--The various forms of administrative detention.--Prisoners of conscience detained for shelter and investigation.--Torture and other violations of detainees' rights.--"Re-education through labor."

China: the massacre of June 1989 and its aftermath. London, Amnesty International Publications, 1990. 67 p. DS799.32 .C45 1989
Preliminary findings on killings of unarmed civilians, arbitrary arrests, and summary executions since 3 June 1989.
Updates: Preliminary findings on killings of unarmed civilians, arbitrary arrests, and summary executions since 3 June 1989.

China: the people's republic at 40. Far Eastern economic review, v. 145, Oct. 5, 1989: 47-77.
Contents.--Standing giant stumbles, by Robert Delfs.--Rural reforms outstrip those in the cities, by Louise do Rasario.--Peasants' lot a happier one--but a long road, by Elizabeth Cheng.--Irony in Deng's 'hear the people' policy ideal, by Robert Delfs.--The old men still the power behind the scene, by Robert Delfs.--Army of the people or the party?, by Tai Ming Cheung.--Artists on a non-stop see-saw ride, by Geremie Barme.--Millions held for dissent or common crime, by Linda Jaivin.--Two Chinese satellites in different orbits, by Carl Goldstein.--The class of '49, by Lynn Pan.

China in the near term; under Secretary of Defense (policy) 1994 summer study; 1-10 August 1994, Newport, Rhode Island. Washington, U.S. Dept. of Defense, 1994. [72] p.
"This study examines scenarios for China following the death of Deng Xiaoping. It is an analysis of a China that has a fragmented political appparatus, has not made the transition to a market economy, and faces a serious succession crisis. The study had three primary objectives: to examine China as it is today with the issues influencing it in the near term; to estimate probabilities of scenario outcomes once Deng dies; and to document the significance of these various scenarios." Includes observations that: a collective leadership will pervail after Deng's death; emphasis on economic reform and limited political liberalization will continue; and there is a 50-50 chance that the transition would lead to a Soviet-style break-up of China."

China in the nineties: crisis management and beyond. Edited by David S.G. Goodman and Gerald Segal. Oxford, Clarendon Press; New York,Oxford University Press, 1991. 226 p. DS779.26 .C47352 1991

China in transformation. Daedalus, v. 122, spring 1993: whole issue (232 p.)
Partial contents.--A failed Chinese modernity, by Helen F. Siu.--To reform a revolution: under the righteous mandate, by Andrew J. Nathan and Tianjian Shi.--Cultural requisites for democracy in China: findings from a survey, by Ying-shih Yu.--The radicalization of China in the twentieth century, by Myron L. Cohen.--China's "core" problem, by David E. Apter.

China since Tiananmen: political, economic, and social conflicts. Edited by Lawrence R. Sullivan. Armonk, NY, M.E. Sharpe, c1995.
This work may be available later in 1995.

China through western eyes, the twentieth century: a reader in history. Edited by J.A.G. Roberts. Wolfeboro Falls, NH, A. Sutton, 1992. 196 p. DS774 .C4416 1992

China's demographic dilemmas. Population bulletin, v. 47, June 1992: 1-44.
"Population size, growth, and control are the most pressing challenges affecting China's demographic future. Old and new problems of population distribution and composition, however, are no less urgent. This Bulletin examines these and other issues affecting the present and future well-being of the Chinese population."

Chinese democracy and the crisis of 1989: Chinese and American reflections. Edited by Roger V. Des Forges, Luo Ning and Wu Yen-bo. Albany, NY, State University of New York Press, c1993. 371 p. DS779.2 .C46 1993
"Based on a conference held at the State University of New York at Buffalo in February 1990."

Chinese families in the post-Mao era. Edited by Deborah Davis and Stevan Harrell. Berkeley, University of California Press, c1993. 370 p. (Studies on China; 17)
HQ684 .A225 1993

Papers from a conference sponsored by the Joint Committee on Chinese Studies, held at Roche Harbor, Wash., June 12-17, 1990.

The Chinese view of the world. New York, Pantheon Books, 1989. 350 p.

Partial contents.--China and the triangular relationship, by Hongquian Zhu.--Chinese nuclear strategy, by Xiaochuan Zhang.--Sino-Soviet relations, by Guocang Huan.--China's policy toward the United States, by Guocang Huan.--China's Third World policy, by Zhimin Lin.--Beijing's policy on Hong Kong, by Zhiduan Deng.

Chow, Rey.
Woman and Chinese modernity: the politics of reading between West and East. Minneapolis, MN, University of Minnesota Press, c1991. 137 p. (Theory and history of literature; v. 75)
DS775.2 .C47 1990

Based in part on the author's doctoral thesis--Stanford University, 1986.

Clark, Grover.
The great wall crumbles. Freeport, N.Y., Books for Libraries Press [1971] 406 p.
DS721 .C575 1971

Reprint of the 1935 ed.

Clark, James I.
China. Rev. ed. Evanston, Ill., McDougal, Littell & Co., c1982. 144, 18 p. (Peoples and cultures series)
DS721 .C577 1982

Cohen, Paul A.
Between tradition and modernity: Wang T'ao and reform in late Ch'ing China. Cambridge, Mass., Council on East Asian Studies, Harvard University; Distributed by Harvard University Press, 1987, c1974. 357 p. (Harvard East Asian monographs; 133)
CT3990.W36 C64 1987

Cole, Bernard D.
Gunboats and marines: the United States Navy in China, 1925-1928. Newark, University of Delaware Press; London, Associated University Presses, c1983. 229 p.
VA58 .C74 1983

A Collection of papers from Strategic Studies. Republic of China, Society for Strategic Studies, 1989. 94 p.

Contents.--The Policy of the Republic of China towards mainland China, by Jason C. Hu.--The Current situation in mainland China and Peking's future policy toward the Asean and the Korean penninsula, by David S. Chou.--The Maritime strategic situation in Southeast Asia (Sea), by Ta-tsai Liu.--Prospects of pro-Democracy movement in Communist China: a post-Tienanmen analysis, by Thomas B. Lee.--State as a modernization agent: the case of the R.O.C. on Taiwan, by Tsai, Wei-hui.

Communism: a world of change. Chicago tribune, July 23, 1989: 1, 8-10; July 24: 1, 6-7; July 25: 1, 6-7; July 26: 1, 8; July 27: 1, 8; July 30: 1, 11; July 31: 1, 6; Aug. 1: 1, 7.

Contents.--Ideology failing test of reality, by Charles M. Madigan.--In USSR, good life still a distant hope, by Vincent J. Schodolski.--Not all of East Europe is ready for reform, by Paula Butturini.--Mao's shadow still clouds future, by Uli Schmetzer.--Superpowers back off from Third World, by Nathaniel Sheppard, Jr.--Approaching a crisis of peace: West needs new way to view, deal with communism, by Nicholas M. Horrock.--Military might remains key to global politics, by Thom Shanker.--Glasnost often doesn't translate into profits, by R. C. Longworth and Thom Shanker.

The Contemporary study of Chinese politics: an introduction. China quarterly, no. 139, Sept. 1994: 699-740.

Contents.--The contemporary study of Chinese politics: an introduction, by Harry Harding.--Trends in the study of Chinese politics: State-society relations, by Elizabeth J. Perry.--Trends in the study of political elites and institutions in the PRC, by Avery Goldstein.--Trends in the study of Chinese political culture, by Peter R. Moody, Jr.

Copeland, Gail.
Spring winds of Beijing. Lakewood, CO., Glenbridge Publishing, c1993. 329 p.
DS779.32 .C67 1993

Copper, John Franklin. Michael, Franz H. Wu, Yuan-li.
Human rights in post-Mao China. Boulder, Westview Press, 1985. 117 p. (Westview special studies on East Asia)

Cries for democracy: writings and speeches from the 1989 Chinese democracy movement. Edited by Han Minzhu, assistant editor Hua Sheng. Princeton, N.J., Princeton University Press, c1990. 401 p. DS779.26 .C75 1990

Deng Xiaoping: an assessment. China quarterly, no. 135, Sept. 1993: whole issue (409-572 p.)

Contents.--An introductory profile: Deng Xiaoping and China's political culture, by Lucian W. Pye.--The making of a pragmatic communist: the early life of Deng Xiaoping, 1904-49, by Benjamin Yang.--Deng Xiaoping: the politician, by David Shambaugh.--Deng Xiaoping: the economist, by Barry Naughton.--Deng Xiaoping: the social reformer, by Martin King Whyte.--Deng Xiaoping: the soldier, by June Teufel Dreyer.--Deng Xiaoping: the statesman, by Michael Yahuda.

Diehl, Seth.
Changing of the guard: chaos likely in post-Deng China. Harvard international review, v. 16, fall 1994: 56-57, 86.

"The outcome of a succession struggle in Beijing will have serious implications for both China and the world at large."

Dimensions of ethnic and cultural nationalism in Asia: a symposium. Journal of Asian studies, v. 53, Feb. 1994: whole issue (3-131 p.)

Partial contents.--Post-orientalism and the interpretation of premodern and modern political identities: the case of Sri Lanka, by John D. Rogers.--Imaging history: inscribing belief in the nation, by Stefan Tanaka.--Reconstructing China's national identify: a Southern alternative to Mao-era anti-imperialist nationalism, by Edward Friedman.--Representing nationality in China: refiguring majority/minority identities, by Dru C. Gladney.

Dingle, Edwin John.
China's revolution, 1911-1912; a historical and political record of the civil war. New York, Haskell House Publishers, 1972. 304 p. DS773 .D6 1972

Reprint of the 1912 ed.

Domes, Jurgen.
Who and what comes next in communist China. Global affairs, v. 8, summer 1993: 125-140.

Considers China's likely practical future. Discusses who "the major political leaders of the PRC in the foreseeable future" will be and how power will be divided.

Drew, Lisa.
Are we loving the panda to death? National wildlife, v. 27, Dec. 1988-Jan. 1989: 14-17.

Discusses controversy over China's "rent-a-panda" program, through which giant pandas are loaned to foreign zoos. Emphasizes however, that "the most critical dangers faced by the fewer than 1,000 giant pandas left in the wild are poaching and loss of habitat. And most of the 100 or so pandas in captivity sit in Chinese zoos, often alone, with little chance of reproducing."

Dreyer, June Teufel.
Unrest in Tibet. Current history, v. 88, Sept. 1989: 281-284, 288-289.

"In March, 1989, faced with the largest, best-organized and most destructive demonstrations in Tibet to date, the central government imposed martial law . . . . . As of June, 1989, martial law remained in force."

Duara, Prasenjit.
Rescuing history from the nation: questioning narratives of modern China. Chicago, University of Chicago Press, 1995.

This work should be available later in 1995.

Duke, Michael S.
The iron house: a memoir of the Chinese democracy movement and the Tiananmen massacre. Laton, Utah, Peregrine Smith Books, c1990. 180 p. DS779.32 .D85 1990

Dunster, Jack.

China and Mao Zedong. Minneapolis, Published in cooperation with Cambridge University Press [by] Lerner Publications Co., 1983, c1982. 35 p. (A Cambridge topic book) DS778.M3 D86 1983

Originally published: Mao Zedong and China.

Traces the life and career of the Chinese peasant who rose to become chairman of the People's Republic during the turbulent period of China's revolution and transformation.

Dupuy, Trevor Nevitt.

The military history of the Chinese Civil War. New York, F. Watts [1969] 110 p. DS777.53 .D87

Emphasizes the influence of the association of Sun Yat-sen, Chiang Kai-shek, and Mao Tse-tung on the Chinese Civil War.

Dutt, Gargi. Dutt, Vidya Prakash.

China's cultural revolution. New York, Asia Pub. House [1970] 260 p. DS777.55 .D92 1970

Eikenberry, Karl W.

Explaining and influencing Chinese arms transfers. Washington, Institute for National Strategic Studies, National Defense University, for sale by the Supt. of Docs., G.P.O., 1995. 65 p. (McNair paper 36)

Describes "the history of PRC weapons exports, then examine[s] various supply- and demand-side reasons for these transfers. In developing both explanations, . . . [identifies] recurring patterns in the global arms trade to put . . . [this] study of China's into perspective."

Fairbank, John King.

China watch. Cambridge, Mass., Harvard University Press, 1987. 219 p. DS777.55 .F25 1987

Revisions and reprints of papers originally published 1971-1985.

Fang, Lizhi.

The Chinese amnesia. New York review of books, v. 37, Sept. 27, 1990: 30-31.

Chinese dissident writes while "staying in the American Embassy in Beijing, before his release last June . . . . Even though, inside China, the Communists are still doing all they possibly can to press ahead with their 'Technique of Forgetting,' their 'Special Propaganda Department' no longer exists. The position of the world's opinion makers, and especially of the various reporters and observers inside China, has changes as well. In the early 1960s Edgar Snow was invited to stand next to Mao Zedong on top of the wall at Tiananmen and take part in the grand pomp and ceremony. By 1990, the lot of reporters had come to include beatings by troops at the base of that same wall. This has been one of the extremely significant changes occasioned by the Tiananmen events."

Fang, Shan.

Mainland China's 1.1 billion population. Issues & studies, v. 25, May 1989: 7-10.

"The dilemma facing the Peking authorities is that if they continue with their reforms, people will inevitably have more political freedom and economic autonomy, and the regime's power to enforce population controls will, therefore, be weakened. But if Peking should tighten its grip once again for the sake of stemming the population increase, this will block the process of the current economic reform program."

Fei, Hsiao-tung.

On the social transformation of China's minority nationalities. Social praxis, v. 6, no. 3-4, 1979: 141-159.

"In depth and speed, the sociocultural transformation of the minorities in China during the last 30 years is perhaps not to be matched elsewhere."

Feigon, Lee.

China rising: the meaning of Tiananmen. Chicago, I.R. Dee, c1990. 269 p. DS779.26 .F45 1990

Ferdinand, Peter.
Communist regimes in comparative perspective: the evolution of the Soviet, Chinese, and Yugoslav systems. Hemel Hempstead [England], Harvester Wheatsheaf; Savage, Md., Barnes & Noble Books, 1991. 332 p. HX40 .F396 1991

Fincher, John H.
Chinese democracy: statist reform, the self-government movement and republican revolution. Rev., expanded ed. Tokyo, Japan, Institute for the Study of Languages and Cultures of Asia and Africa, 1989. 308 p. (Monumenta Serindica; no. 20) JQ1502 .F56 1989

Zhao's fall, China's loss. Foreign policy, no. 76, fall 1989: 3-25.

"Brought about by Zhao's dismissal, is an acknowledgment that China's present challenges and future prospects lie mostly with urban centers . . . . It is an inventiveness that makes Zhao appear, like Gorbachev, all the more a practitioner of a new kind of communist party politics . . . . The size of the urban population offers the best insurance against China's reversion to values and policies that are threatening to its neighbors as well as to itself."

Finder, Susan.
The Supreme People's Court of the People's Republic of China. Journal of Chinese law, v. 7, fall 1993: 145-224.

"This article will examine the status and functions of the Court, in law and in practice, with a view to understanding its current and future role in the Chinese legal system."

Fitzgerald, Stephen.
China and the overseas Chinese; a study of Peking's changing policy, 1949-1970. Cambridge [Eng.] University Press, 1972. 268 p. (Cambridge studies in Chinese history, literature and institutions) DS732 .F56

Focus: China in the reform era. Edited by Charles E. Morrison and Robert F. Dernberger. Honolulu, Hawaii, East-West Center, 1989. 125 p.

Partial contents.--China's political reforms.--China's economic reforms.--Demographic and social change in China.--Environmental problems and economic modernization.--China's role in the Asia-Pacific region.

Foster, Gregory D.
Global demographic trends to the year 2010: implications for U.S. security. Washington quarterly, v. 12, spring 1989: 5-24.

With a look into the future, this article examines the demographic dimension of international relations "to ascertain how important population matters might be to the security interests of the United States."

Fu, Hualing.
The judicial assistant system in rural Mainland China. Issues & studies, v. 28, Apr. 1992: 23-45.

"A Judicial Assistant (JA) system was established in 1979. It had two purposes: (1) to counter the increasing incivility of rural society by reviving the paralyzed people's mediation committees, and (2) to reaffirm state control over rural society by forming a semi-official channel between the two."

Fung, Edmund S. K.
The military dimension of the Chinese revolution: the New Army and its role in the Revolution of 1911. Canberra, Australia, Australian National University Press, 1980. 349 p. UA837 .F84 1980

Gamer, Robert E.
From zig-zag to confrontation at Tiananmen: tradition and politics in China. Indianapolis, UFSI, 1989. 11 p. (UFSI reports, 1989-90, no. 10, Asia)

"For the past decade, it has been easy to think of China proceeding on the road to reform, with turns along the way. The Tiananmen massacre and the events which have followed remind us that in China there is a rational alternative to reform. That alternative consists of placing a higher value on traditional authority. Such a philosophy has helped China achieve millennia of existence. China has always absorbed outside culture; but it has stopped short of absorbing culture which affects the way it is ruled. The party leadership is not a united group. They are divided into many connected factions seeking benefits for themselves. Fundamental split in their assessment of how much change the system can absorb without losing its authority prompted the confrontation at Tiananmen. Such splits have occured before, and will again."

Gao, Shiguo.
The South China Sea: from conflict to cooperation? Ocean development and international law, v. 25, July-Sept. 1994: 345-359.

"This article provides a comprehensive review of the latest developments with respect to the Spratly Islands disputes in the South China Sea. By studying the national policies behind the evolution of these events it examines in particular some of their implications on regional relations and the future of the South China Sea, with special emphasis on China's policy toward the issue."

Gardner, Hall.
China and the world after Tiananmen Square. SAIS review, v. 10, winter-spring 1990: 133-147.

"By July 1989, with the crushing of the pro-democracy movement . . . Sino-U.S. relations reached their lowest point since the 1978 normalization of diplomatic ties. The danger in the coming years is that in its attempts to co-opt the pro-democracy movement, the Chinese Communist party will pursue a more assertive foreign policy. Only a new foreign policy involving U.S., Soviet, Western European and Japanese cooperation designed to manage, but not alienate, Chinese aspirations for great power status can limit the potential militarization of the Asian theatre, as well as work toward democratic reform in China."

Garver, John W.
The Chinese Communist party and the collapse of Soviet communism. China quarterly, no. 133, Mar. 1993: 1-26.

"China's 20th-century history has been so deeply influenced by Soviet developments . . . . This article asks, first, whether the top leaders of the Chinese Communist Party (CCP), had a deliberate policy towards the decline of Soviet Communism, and if so, what was the nature of that policy? Did the CCP attempt to assist their comrades in the Communist Party of the Soviet Union (CPSU) as the latter battled for survival during 1990 and 1991?"

Gasster, Michael.
China's struggle to modernize. 2nd ed. New York, McGraw-Hill Publishing Co., 1993.

This work may be available later in 1995.

Gaubatz, Piper Rae.
Beyond the Great Wall: urban form and transformation on the Chinese frontiers. Stanford, Calif., Stanford University Press, c1996.

This work may be available later in 1995.

Gelatt, Timothy A.
Law reform in the PRC after June 4. Journal of Chinese law, v. 3, fall 1989: 317-325.

"What does the future of law in China look like in the wake of spring and summer 1989? The PRC leadership has never indicated an intention to use law in a way that would alter China's political or ideological foundations or 'basis.'"

Goldstein, Avery.
Explaining politics in the People's Republic of China: the structural alternative. Comparative politics, v. 22, Apr. 1990: 301-322.

Goldstein, Melvyn C. Beall, Cynthia M.
China's birth control policy in the Tibet autonomous region. Asian survey, v. 31, 1991: 285-303.

"The nature of China's population policy in contemporary Tibet (the Tibet Autonomous Region [TAR] is a controversial issue. A series of published reports claim that China was and is compelling Tibetans to adhere to a strict birth control program that includes forced abortions, sterilizations, and even infanticide. This article addresses this issue by presenting new data independently collected by the authors during field research in Tibet from 1985 to 1988."

The impact of China's reform policy on the nomads of western Tibet. Asian survey, v. 29, June 1989: 619-641.

Examines sociocultural and economic consequences of China's liberalized policies in the Tibet Autonomous Region (TAR). "This article begins to clarify this issue with regard to Tibet's 500,000 nomadic pastoralists . . . of Tibet's Changtang (Northern Plateau)."

Goldstein, Steven M.

China at the crossroads: reform after Tiananmen. Ithaca, N.Y., Foreign Policy Association, 1992. 127 p. (Headline series)

Contents.--China's reform movement: the road to Tiananmen.--Post-Tiananmen reform.--China's world: Sino-Soviet-American strategic triangle.--Sino-American relations.

Gong, Gerrit W.

China's fourth revolution. Washington quarterly, v. 17, winter 1994: 29-43.

"The domestic directions this fourth revolution takes will determine whether or not China becomes a regional and global engine of economic growth, a highly competitive producer able to . . . translate abundant human and natural resources into a stable, leading economy with compounded high rates of annual gross national product (GNP) growth and buoyant domestic demand. The international directions this fourth revolution takes will also have regional and global ramifications; they will shape the structure of East Asia, as well as the pattern of relations among East Asia, North America, and Europe."

Gray, Jack.

Rebellions and revolutions: China from the 1800s to the 1980s. New York, Oxford University Press, 1990. 456 p. (The Short Oxford history of the modern world)

DS755 .G72 1990

Greater China. China quarterly, no. 136, Dec. 1993: 653-948 p.

Partial contents.--Introduction: the emergence of "Greater China", by David Shambaugh.--The concept of "Greater China": themes, variations and reservations, by Harry Harding.--The foreign relations of Greater China: trade and investment flows between China, Hong Kong and Taiwan, by Robert Ash and Y. Y. Kueh.--Macau and Greater China, by Richard Louis Edmonds.

Greater China: the next superpower? Edited by David Shambaugh. Oxford, Oxford University Press, 1995. (Studies on contemporary China (Oxford, England))

This work should be available later in 1995.

Greenwood, Gavin.

Cover story: Hong Kong. Far Eastern economic review, v. 156, July 8, 1993: 16-18, 20-22.

"With four years to go before Hongkong reverts to China the nuts and bolts of the transition urgently need attention." Examines affected sectors.

Guocang, Huan.

The events of Tiananmen Square. Orbis, v. 33, fall 1989: 487-500.

"The democracy movement that climaxed with the occupation of the square is not over. On the contrary, the events leading up to June 4 appear to have been but a prelude. What emerged from those events was a true democracy movement, such as China had not previously known . . . . Did this radically original movement develop during the year that preceded Tiananmen Square? How has it operated? What is its future?"

Hahn, Bradley.

China: a naval transition. Journal of defense & diplomacy, v. 6, Nov. 1988: 4-13.

Discusses the recent reorganization of the Chinese PLA (People's Liberation Army) Navy. Evaluates the PLA navy's capabilities and equipment. Concludes that if the military's share of the budget falls between "10 and 15 percent . . . a significantly expanded Chinese blue-water seapower capability will exist by the 1990s."

BEST COPY AVAILABLE

Hall, Elizabeth.
China's only child. Psychology today, v. 21, July 1987: 44-47.
Looks at research "to find out whether China's growing generation of only children might endanger the socialist state."

Hao, Yan.
China's 1.2 billion population target for the year 2000: 'within' or 'beyond'? Australian journal of Chinese affairs, no. 19-20, Jan.-July 1988: 165-183.
"At the Fifth National People's Congress in 1978, two ambitious targets were announced for China's future development by the year 2000: to quadruple the total industrial-agricultural output on the basis of 1980's output, and to keep the population within the 1.2 billion mark. The two targets are closely interrelated. Since early 1985, the 1.2 billion mark has remained the official goal, with a small but very important change in preposition: 'within' is replaced by 'around'. The 1.2 billion target as a policy is open to question from different viewpoints. How credible are the grounds for setting such a target?"

Han, Theodore. Li, John.
Tiananmen Square, spring 1989: a chronology of the Chinese democracy movement. Berkeley, Calif., Institute of East Asian Studies, University of California, Berkeley, Center for Chinese Studies, c1992. 112 p. (Chinese research monographs)
DS779.32 .H36 1992

Hayhoe, Ruth.
China's returned scholars and the democracy movement. China quarterly, no. 122, June 1990: 293-302.
"Clearly there has been a growing tension over recent years between changes in the structure and organization of knowledge within Chinese higher education and a rigid set of political patterns which have remained basically unchanged in spite of officially sanctioned discussions of political structure reform." Examines the views held by returning scholars and by women who have had the opportunity to study overseas.

.....
China's universities since Tiananmen: a critical assessment. China quarterly, no. 134, June 1993: 291-309.
"This article attempts to assess enrolment patterns after Tiananmen, curricular reforms and the research role of universities. Sources drawn upon include the Chinese Education Newspaper, which provides an authoritative account of official policy, the Chinese Higher Educational Journal, also emanating from the State Education Commission, and giving some elaboration of the official line. A third valuable source is Gaodeng jiaoyu (Higher Education Teaching), a series compiled at People's University that brings together research articles from higher education journals around the country."

He, Baogang.
A critique of the Chinese paternalistic model of democracy. Issues & studies, v. 26, Oct. 1990: 24-42.
"This paper first examines the basic issues, such as why the mainland Chinese paternalistic leaders wanted to introduce democracy, what concept of democracy they currently hold, and what kind of democracy they wish to establish. Second, it analyzes two premises underlying the paternalistic model of democracy: collectivism and limitations on liberty. Third, it discusses the incompatibility between this paternalistic authority and democracy."

Hickey, Dennis Van Vranken.
Taiwan and Tiananmen: an analysis of Taiwan's policy toward the democracy movement. Journal of Northeast Asian studies, v. 9, fall 1990: 3-22.
"This article examines the Republic of China's (Taiwan) policy toward the democracy movement that swept the People's Republic of China during April, May, and June 1989."

Hom, Sharon K.
Female infanticide in China: the human rights specter and thoughts towards (an)other vision. Columbia human rights law review, v. 23, summer 1992: 249-314.
"Despite Chinese official condemnation and outrage at the crime of female infanticide, and despite legislative pronouncements prohibiting the practice, the reality remains that female infanticide continues. Although the extent of the practice is

difficult to document and quantify, and many reports, both foreign and official Chinese, differ in their analysis of the extent of and responses to the problem, Chinese government officials do not deny the reemergence of what they regard as a shameful legacy of feudal China."

Hong Kong beyond 1997: symposium. Part 1. Asian affairs, an American review, v. 17, fall 1990: whole issue (99-160 p.)

Contents.--Special administrative region: from crown to Chinese colony, by Charlotte Ku.--Hong Kong's structural relationship with the central government in Beijing after 1997, by James C. Hsiung.--The future of Hong Kong: a countercyclical view, by Winberg Chai.--The economic dimensions of 1997, by Danny Kin-Kong Lam.--The Hong Kong experience and the unification of China, by Wou Wei.--Political culture and participation in Macau, by Lo Shiu-Hing.

Hood, Steven.

Reform and factional strife in China: Chinese marxism and the legacy of Deng Xiaoping. Asian thoughts and society, v. 19, May-Aug. 1994: 124-135.

Discusses the significance of factions within the Chinese Community Party. Traces the emergence "of three factions in the CPC since 1978, and explore[s] the pivotal role played by Deng Xiaoping. It is argued that Deng and the three factions are much more orthodox in their adherence to Marxism than popular analyses often acknowledge."

Hooton, E. R.

The greatest tumult: the Chinese civil war, 1936-49. London; Washington, Brassey's; New York, Distributed in North America to booksellers and wholesalers by the Macmillan Pub. Co., 1991. 216 p. DS777.518 .H66 1991

Hoyt, Edwin Palmer.

The rise of the Chinese republic: from the last emperor to Deng Xiaoping. New York, Da Capo Press, [1991], c1989. 355 p. DS774 .H62 1991

Hsu, Mei-Ling.

Population of China: large is not beautiful. Focus (American Geographical Society, v. 42, spring 1992: 13-16.

Hsueh-wen, Wang.

Tolerance and control: Peking's attitude toward religion. Issues & studies, v. 27, Jan. 1991: 118-129.

"Three major belief systems in China are Buddhism, Christianity, and Confucianism . . . . Of these, Buddhism advises people to take a passive attitude toward existence, Christianity recommends positive action, while Confucianism advocates the doctrine of the mean."

Johnson, Chalmers.

East Asia: another year of living dangerously. Foreign affairs, v. 62, no. 3, 1984: 721-745.

The author notes "a slight shift in the center of gravity of U.S. foreign policy from Europe toward Asia. In a large part this shift is prompted by a growing realization among the leaders of the United States and Japan that their nations will, for the indefinite future, be paramount in the fundamental sciences and their practical offshoots in microelectronics, biotechnology, fine ceramics, and other new areas of technical development, and that Western Europe will trail in most of these fields and the Soviet Union simply be left behind." He concludes that American strategy for East Asia should give first priority to the opportunities and challenges posed by non-communist Asia.

Jowett, A. John.

China: the one, two, three, four and more child policy. Focus, v. 41, summer 1991: 32-36.

Kao, Charng.

A "greater China economic sphere": reality and prospects. Issues & studies, v. 28, Nov. 1992: 49-64.

"Suggests that instead of seeking an organized economic bloc, the two sides of the Taiwan Strait should focus on reducing political interference in their economic exchanges and bringing into play their respective economic strong points. Once economic exchanges between the two sides are normalized an organized economic community would come as a matter of course."

Karnow, Stanley.
Mao and China: a legacy of turmoil. 3rd ed., rev. and updated New York, Penguin Books, 1990. 573 p. DS778.7 .K37 1990

Kent, Ann.
Waiting for rights: China's human rights and China's Constitutions, 1949-1989. Human rights quarterly, v. 13, May 1991: 170-201.

"The nominal civil rights contained in all the constitutions which conformed with the international provisions had been cancelled out by constitutionally prescribed duties, [and] by other acts of legislation . . . . On the other hand, some rights contained in the International Bill of Rights which were not guaranteed in any of China's constitutions were exercised in fact within the decade before June 1989. These included limited freedom of residence and movement, and the right to choose one's work."

Kirby, Justice Michael.
Tibet in context--the rights of peoples. Journal of Asian and African affairs, v. 2, Dec. 1990: 169-174.

Discusses the rights of people under international law and applies this discussion to Tibet.

Kristof, Nicholas D.
China erupts: . . . the reasons why. New York times magazine, June 4, 1989: 27-29, 85-86, 88, 90.

"Long before the uprising, the Communist Party's power had been eroding."

Kublin, Michael. Kublin, Hyman.
China. 3rd ed. Boston, Houghton Mifflin Co., c1991. 291 p. (World regional studies) DS735 .K783 1991

Lan, Zhiyong.
State socialism and China's human resources utilization. Asian thought & society, v. 19, Jan.-Apr. 1994: 17-28.

Argues that Deng Ziaoping publically adheres to the principles of state socialism despite the negative ramifications of this Marxist ideology for his modernization program, because of his belief that Marxist socialism is indispensable for politically stabilizing China. Concludes that with "China's huge repertoire of cultivated and uncultivated human resources, a public philosophy emphasizing the development and utilization of human resources may be an ideal fit for China's need."

Lane, Kevin.
Sovereignty and the status quo: the historical roots of China's Hong Kong policy. Boulder, Westview Press, 1990. 167 p. (Westview special studies on China and East Asia) DS740.5.G6 H68 1990

Lary, Diana.
Warlord soldiers: Chinese common soldiers, 1911-1937. Cambridge [Cambridgeshire]; New York, Cambridge University Press, 1985. 177 p. (Contemporary China Institute publications) DS775.4 .L37 1985

Lavely, William. Lee, James. Wang, Feng.
Chinese demography: the state of the field. Journal of Asian studies, v. 49, Nov. 1990: 807-834.

While only a decade ago "there were virtually no demographers of China and little available data," the situation has now changed. "New sources of data now place China among the better-documented national populations. Publications on Chinese population have boomed."

Lee, Alissa.
Queen sacrifices pawn: Hong Kong braces itself for 1997. Harvard international review, v. 15, fall 1992: 44-45, 59.

"The people of Hong Kong have rarely been included or even consulted in the negotiations. As a result, they will soon be turned over to their Communist neighbors with little say in the matter."

The Legal status of Tibet: three studies by leading jurists. Dharamsala, India, Office of Information & International Relations, 1989. 121 p. JX4084.T45 L44 1989
Office of His Holiness the Dalai Lama. Office of Information & International Relations.

Lewis, John Wilson. Hua, Di.
China's ballistic missile program. International security, v. 17, fall 1992: 5-40.
Argues that proposals for halting the international sale of Chinese ballistic missiles can succeed only "when the dynamics and motivations of China's defense system are taken fully into account . . . focuses on those programs and their purposes . . . . Describes the technological and strategic background of China's current programs for the modernization of its ballistic missile forces."

Li, Lu.
Moving the mountain: my life in China from the cultural revolution to Tiananmen Square. London, Macmillan, 1990. 211 p. CT1828.L374 A3 1990

Li, Nan.
Changing functions of the party and political work system in the PLA and civil-military relations in China. Armed forces and society, v. 19, spring 1993: 393-409.
"Civil-military relations in China as they are affected by post-Cultural Revolutionary military reform, with an emphasis on the conceptual redefinition of the functions of the PPWS in the PLA."

Li, Peilin.
Another invisible hand: structural transition in society. Social sciences in China, v. 15, spring 1994: 84-94.
"After more than a decade of reform and opening to the outside world, China has entered a new period of social transition. The primary indicators of this transition are: the shift from a self-sufficient or semi-self-sufficient product economy to a planned commodity economy; from an agricultural to an industrial society; from a rural to an urban society, and from an isolated or semi-isolated to an open society. This article is a theoretical exposition of this issue."

Li, Wen Lang. Ou-yang, Hsin.
Marxian vs. Confucian effects on elite mobility: an analysis of the turnover in the NPC Standing Committee, 1953-83. Issues & studies, v. 27, Nov. 1991: 57-77.
"This article provides a historical and statistical analysis of the changing patterns in Standing Committee membership of the National People's Congress (NPC), a legislative body of the mainland Chinese government. The essential questions asked in this study are: has the extent of elite turnover declined as the revolutionary regime has matured; do the 'Reds' in the elite organization have a better chance of being retained than other types of elites; does the pattern of elite turnover reflect Marxist characteristics or traditional Confucian characteristics? The answers to these questions are presented as statistical generalizations in the conclusion."

Li, Xiaolin.
Chinese women in the People's Liberation Army: professionals or quasi-professionals? Armed forces & society, v. 20, fall 1993: 69-83.
"Examines three commonly observed patterns in women's military roles as manifested in the Chinese PLA: participation in unconventional operations, including combat; . . . utilization in support roles; . . . exclusion during periods of demobilization."

Liao, Hollis S.
Origins of the Tibetan independence movement. Issues & studies, v. 25, Apr. 1989: 97-109.
"When did Tibetans start to demand independence? From where did this demand originate? This paper will probe into Tibetan history to locate the origins of the Tibetan independence movement."

Lieberthal, Kenneth.
Governing China: from revolution through reform. New York, W.W. Norton, 1995.
This work may be available later in 1995.

Lieberthal, Kenneth. Dickson, Bruce J.
A research guide to central party and government meetings in China, 1949-1986. Rev. and expanded ed. Armonk, N.Y., M.E. Sharpe, c1989. 339 p. JQ1519.A5 L474 1989

Lifton, Robert J.
Revolutionary immortality: Mao Tse-tung and the Chinese cultural revolution. New York, Norton, 1976. 178 p. (The Norton library; N797) DS777.55 .L457 1976

Lin, Jing.
The Red Guards' path to violence: political, educational, and psychological factors. New York, Praeger, 1991. 187 p. DS778.7 .L57 1991

Lin, Nan.
The struggle for Tiananmen: anatomy of the 1989 mass movement. Westport, Conn., Praeger, 1992. 199 p. DS779.32 .L56 1992

Lin, Yu-siang.
China's reunification and Tiananmen. Global affairs, v. 4, fall 1989: 36-56.

"Despite Taiwan's horror at the violence in Tiananmen Square, it has not altered its 'open door policy' with respect to visits to the mainland and 'indirect' trade and investment across the Taiwan Strait."

Liu, Shia-ling.
The last peace talks between the nationalists and communists in China: a case study of communist tactics of peace offensive. [Taipei] World Anti-Communist League, China Chapter, Asian People's Anti-Communist League, Republic of China [1987] 34 p. (Pamphlet (World Anti-Communist League. China Chapter); XXXIII, 301)
DS777.544.P43 L58 1987

The Living tree: the changing meaning of being Chinese today. Daedalus, v. 120, spring 1991: whole issue (1-226 p.)

Partial contents.--Cultural China: the periphery as the center, by Tu Wei-ming.--No solace from Lethe: history, memory, and cultural identity in twentieth-century China, by Vera Schwarcz.--Being Chinese: the peripheralization of traditional identity, by Myron L. Cohen.--Among non-Chinese, by Wang Gungwu.--Roots and changing identity of the Chinese in the United States, by L. Ling-chi Wang.

Lo, Fulang.
Morning breeze: a true story of China's cultural revolution. San Francisco, China Books & Periodicals, c1989. 243 p. DS778.7 .L59 1989

Lo, Ruth Earnshaw. Kinderman, Katharine S.
In the eye of the typhoon: an American woman in China during the Cultural Revolution. New York, Da Capo Press [1987] c1980. 289 p.
DS778.7 .L6 1987

Reprint. Originally published: New York, Harcourt Brace Jovanovich, c1980.

Lord, Bette.
Legacies: a Chinese mosaic. New York, Fawcett Columbine, 1991. 242 p.
DS779.23 .L67 1991b

Originally published: New York, Knopf, 1990.

Luk, Michael Y. L.
The origins of Chinese Bolshevism: an ideology in the making, 1920-1928. Hong Kong; New York, Oxford University Press, 1990. 366 p. (East Asian historical monographs)
HX418 .L85 1990

Luo, Zi-ping.
A generation lost: China under the Cultural Revolution. New York, H. Holt, c1990. 342 p. DS778.7 .L86 1990

Maas, Peter.
The menace of China white. Parade magazine (Washington post), Sept. 18, 1994: 4-6.

"A hideous scourge is reappearing all across America. It is heroin--but a sinister new kind, known throughout the drug culture as 'China White.' It comes from the opium poppy fields of the so-called Golden Triangle in Southeast Asia, where Burma (Myanmar), Laos and Thailand come together. And now secret Chinese criminal societies based in Hong Kong are flooding the U.S. with it. In earlier times, heroin generally had a purity of 5 percent to 10 percent. But the new heroin is so pure--up to 90 percent pure--that is can be snorted or smoked just like cocaine."

MacDonald, Malcolm.
Inside China. London, Heinemann, 1980. 208 p. DS774 .M26x 1980c

Mackerras, Colin.
China's minorities: integration and modernization in the twentieth century. Hong Kong; New York, Oxford University Press, 1994. 355 p. DS730 .M336 1994

Mackerras, Colin. Taneja, Pradeep. Young, Graham.
China since 1978: reform, modernisation, and 'socialism with Chinese characteristics.' New York, St. Martin's Press; Melbourne, Australia, Longman Cheshire, 1993. 274 p. (Studies on contemporary Asia) DS779.26 .C473527 1993

McCormick, Barrett L. Su, Shaozhi. Xiao, Xiaoming.
The 1989 democracy movement: a review of the prospects for civil society in China. Pacific affairs, v. 65, summer 1992: 182-202.
"The 1989 Chinese Democracy Movement pitted a state with totalitarian intentions against an emerging civil society .... Whether civil society is defined as autonomous organization, ... [or] autonomous public discourse, there is clear evidence of the beginnings of civil society .... The future is uncertain, but there is a possibility that in the long run, socialism will appear an untoward detour in the process of establishing autonomous civil society."

McCormick, Barrett L.
The impact of democracy on China studies. Problems of Communism, v. 40, Jan.-Apr. 1991: 126-132.
Reviews several works on China published prior to the democracy movement in order to examine if pre 1989 literature on socialist countries provides an understanding of the events which later occurred.

McSherry, Mary.
You can't go home again. National review, v. 41, Dec. 22, 1989: 37-38, 50-51.
Views the post Tiananmen Square crackdown in China from a Taiwanese perspective, "to a Republic of China already in the midst of social and political flux, Tiananmen Square came as a fulfillment of prophecies of the evil of Communism, a reminder of how much had changed since 1949."

Mitchell, Peter.
China faces the 1990s. Behind the headlines, v. 49, spring 1992: whole issue (16 p.)
Considers the following questions: "what relationship did the student protest movement have to the previous reform decade? Why did the government choose to exercise brute military force against its own unarmed citizenry, and why did the country not rise up in horror at such a massacre of its promising youth? What has happened since that fateful day in June to the hopes and aspirations of the reform programme, as well as to the democracy movement which seemed to outsiders its logical extension? Was the crackdown in 1989 primarily responsible for China's curious resistance to following the world-shaking path recently transforming the former Soviet Union and eastern Europe? Is the 'death of Marxist socialism' simply a matter of time, or are there reasons why China hangs out so tenaciously against the seeming inevitable triumph of democracy and capitalism?"

Munro, Ross H.
Eavesdropping on the Chinese military: where it expects war--where it doesn't. Orbis, v. 38, summer 1994: 355-372.
Discusses the philosophy of the Chinese military, examining the areas that it feels competent and those which it does not.

Murray, Brian.
Tiananmen: the view from Taipei. Asian survey, v. 30, Apr. 1990: 348-359.
"This article will describe the reaction of the political parties on Taiwan to the mainland crackdown and present the results of the author's survey of elite opinion as well as other public opinion polls related to the Tiananmen incident."

Nathan, Andrew J.
Chinese democracy. New York, Knopf; Distributed by Random House, 1985. 313 p.
JQ1516 .N38 1985

Chinese democracy: the lessons of failure. Journal of contemporary China, no. 4, fall 1993: 3-100.

"China's experiments with democracy in this century were few in number, short in duration, and limited in their democratic characteristics. Democratic institutions malfunctioned in numerous ways. Nine sets of causes for the failure of Chinese democracy can be suggested: ideology, internal and external war, military intervention, Chinese political culture, underdevelopment, a peasant mass, flaws in the design of Chinese constitutions, moral failures by democratic politicians, or the lack of transactional benefits for military-based elites in the process of democratic transition. Each of these factors is reviewed critically with an eye to its possible lessons."

Is China ready for democracy? Journal of democracy, v. 1, spring 1990: 50-61.

"The institutions of a democratic China will probably evolve from the present structure. The system will probably have a single supreme legislature like the National People's Congress, unicameral and not subject to judicial review. It may well have a single dominant party that stays in office permanently like those in Taiwan and Japan. This is most likely to be the Communist Party, which will enter the democratizing transition with enormous advantages in size, organizational sophistication, and control over resources that it can use to fight and win elections. Protecting the vested interests of party members and party-chosen bureaucrats will be high on the agenda of the politicians who engineer the transition."

New ghosts, old dreams: Chinese rebel voices. Edited by Geremie Barme and Linda Jaivin. New York, Times Books, c1992. 515 p. DS779.32 .N48 1991

New perspcetives on the Chinese Communist revolution. Edited by Tony Saich and Hans J. van de Ven; David E. Apter and others. Armonk, N.Y., M.E. Sharpe, c1995. 414 p.
JQ1519.A5 N42 1994

Papers from a conference sponsored by Sinological Institute, Leiden University and International Institute of Social History, held January 8-12, 1990 in Leiden and Amsterdam.

New perspectives on the Cultural Revolution. Edited by William A. Joseph, Christine P.W. Wong, and David Zweig. Cambridge, Mass., Council on East Asian Studies/Harvard University; Distributed by Harvard University Press, 1991. 351 p. (Harvard contemporary China series; 8) DS778.7 .N48 1991

O'Brien, Kevin J.
Legislative development and Chinese political change. Studies in comparative communism, v. 22, spring 1989: 57-75.

"This study focuses on the latest round of legislative change--the renewal underway since 1978. It examines NPC [National People's Congress] involvement in four common legislative activities (lawmaking, supervision, representation, regime support) and show how legislative role expansion is one component of systemic, political change. By focusing on one institution and one set of political functions we trace the trajectory of Chinese political development and what we find is a continuing wariness toward liberalization, combined with a growing commitment to rationalization and inclusion."

Pei, Minxin.
From reform to revolution: the demise of communism in China and the Soviet Union. Cambridge, Mass., Harvard University Press, 1994. 253 p. HX418.5.P43 1994

The People's Republic of China, 1988. Current history, v. 87, Sept. 1988: whole issue (241-304 p.)

Contents.--Sino-American relations, by John Bryan Starr.--Sino-Soviet detente and Chinese foreign policy, by James C. Hsiung.--Politics and political reform in China, by David Bachman.--China's economy: new strategies and dilemmas, by Chu-yuan Cheng.--Chinese foreign trade in the 1980's, by John Frankenstein.--Dissent and tolerance in Chinese society, by Stanley Rosen.--China's changing criminal justice system, by Hungdah Chiu.

People's Republic of China: preliminary findings on killings of unarmed civilians: arbitrary arrests and summary executions since June 3, 1989. New York, Amnesty International USA, 1989. 48 p. DS779.32 .P46 1989

Pye, Lucian W.
Tiananmen and Chinese political culture: the escalation of confrontation from moralizing to revenge. Asian survey, v. 30, Apr. 1990: 331-347.

"The tragedy of Tiananmen was a Chinese version of a Greek tragedy. That is, there was an inevitability in the escalating confrontation."

Salisbury, Harrison Evans.
The long march: the untold story. New York, McGraw-Hill, 1987, c1985. 419 p. DS777.5134 .S34 1987

The new emperors: China in the era of Mao and Deng. Boston, Little, Brown, c1992. 544 p. DS778.A1 S426 1992

Scalapino, Robert A.
The politics of development: perspectives on twentieth-century Asia. Cambridge, Mass., Harvard University Press, 1989. 137 p. (Edwin O. Reischauer lectures.) DS35 .S353 1989

Schram, Stuart R.
Mao Zedong a hundred years on: the legacy of a ruler. China quarterly, no. 137, Mar. 1994: 125-179.

"Mao's personality was many-sided and contradictory, and in his time he played many roles. A brief article cannot hope to embrace every aspect of such a figure. My concern here will not be with Mao the man, but with what he did to China."

The thought of Mao Tse-Tung. Cambridge [Cambridgeshire]; New York, Cambridge University Press, 1989. 242 p. (Contemporary China Institute publications) DS778.M3 S34 1988

Schrecker, John E.
The Chinese revolution in historical perspective. New York, Praeger, 1991. 240 p. DS740.2 .S33 1991b

Segal, Gerald.
China's changing shape: the Muddle Kingdom. Foreign affairs, v. 73, May-June 1994: 43-58.

"This basic question over China's future revolves around the degree to which Beijing's authority will give way to the centrifugal pull of China's increasingly dynamic periphery. The death of old ideologies has left Chinese nationalism as the obvious, if uncertain, organizing principle for Beijing's domestic and foreign policies. Will China's fate be dominated by its unsatisfied nationalism, or will it be moderated . . . by the . . . tendencies of Beijing's continental empire?"

The fate of Hong Kong. 1st U.S. ed. New York, St. Martin's Press, 1993. 234 p. DS796.H757 S46 1993

"Originally published in England by Simon & Schuster Ltd."--T.p. verso.

Shi'an, Li.
The 1943 Sino-British talks on the abolition of unequal treaties and the Hong Kong problem. Social sciences in China, no. 4, 1994: 157-166.

Shue, Vivienne.
China: transition postponed? Problems of communism, v. 41, Jan.- Apr. 1992: 157-169.

"The main aim of this essay is to explore why a political 'transition to democracy' has not and is not likely to come quickly in China." Includes Commentary by Roderick MacFarquhar.

Smith, Richard J.

The future of Chinese culture. Futures, v. 21, Oct. 1989: 431-446.

"Examines the place of Chinese culture in the modernizing process, and argues that the past will play a larger role in the PRC's future than the Chinese leadership would probably care to admit. Or, to paraphrase Mark Twain, reports of the death of traditional Chinese culture have been greatly exaggerated."

Spaulding, Seth.

New educational strategies and innovation in China. Journal of Asian and African affairs, v. 4, spring 1993: 12-32.

Describes "how the Chinese are tackling the need to innovate in educational administration, teacher education and educational technology," based on interviews from 1992 with school and government officials in the People's Republic of China.

Spence, Jonathan D.

The search for modern China. New York, Norton, c1990. 876 p. DS754 .S65 1990

Stanzel, Volker.

The reshaping of socialism in China. Aussenpolitik, v. 45, no. 4, 1994: 364-373.

"The collapse of the Soviet Union has not only exposed the latent fragility of Communist mega-empires, but also the extent of the problems resulting from their demise. The question is repeatedly raised, therefore, whether similar developments can also be expected in China."

Stepping out: China's lengthening shadow. International defense review, v. 28, Feb. 1995: 28-38.

Contents.--Red fist: China's army in transition, by Chong-Pin Lin.--China's defense budget: is the PLA cooking the books? by Richard A. Bitzinger.--Checkered chums, by Pamela Pohling-Brown.

Su, Kaiming.

Modern China: a topical history. Beijing, China, New World Press; Distributed by China International Book Trading Corp., 1985 (1986 printing) 279 p. DS757.5 .S8 1985

Sun, Yan.

The Chinese and Soviet reassessment of socialism: the theoretical bases of reform and revolution in communist regimes. Communist and post-communist studies, v. 27, Mar. 1994: 39-58.

"A systematic comparison of the reassessment of socialism in China under Deng Xiaoping and in the former Soviet Union under Gorbachev, focusing on the . . . problems and failures of socialism as theory and practice."

Swaine, Michael D.

China faces the 1990's: a system in crisis. Problems of communism, v. 39, May-June 1990: 20-35.

The Chinese system stands at a critical juncture in its development. Neither a decade of reform nor the corrective actions in effect since September 1988 have addressed the most fundamental problems of the economy. Politically, the center is divided and weak . . . . the capability of the system to meet the challenges facing it has never been weaker. Thus, the present situation suggests that China may experience a prolonged slide into regime impotence, confusion, and disarray.

The military & political succession in China: leadership, institutions, beliefs. Santa Monica, CA, RAND, 1992. 270 p. (A Project AIR FORCE report) UA837 .S93 1992

Terrill, Ross.

China in our time: the epic saga of the People's Republic from the Communist victory to Tiananmen Square and beyond. New York, Simon & Schuster, c1992. 366 p. DS777.55 .T4166 1992

Leaving Deng behind. World monitor, v. 5, Nov. 1992: 50-54.

"China's own Havels and Walesas will be ready when the communist dynasty ends. Meanwhile, the U.S. should be cool and businesslike--but also ready for the changes ahead."

Third World, second class. Washington post, Feb. 14, 1993: A1, A48-A49; Feb. 15: A1, A32-A33; Feb. 16: A1, A24-A25; Feb. 17: A1, A24-A25; Feb. 18: A1, A34-A35.

Five-part series examines the condition of women in developing countries, with reports from India, Brazil, Kenya, China, Egypt, and Somalia. Contributors include John Ward Anderson, Molly Moore, Julia Preston, Susan Okie, Lena H. Sun, Caryle Murphy, and Keith B. Richburg.

Thurston, Anne F.

Enemies of the people: the ordeal of the intellectuals in China's great Cultural Revolution. Cambridge, Mass., Harvard University Press, 1988, c1987. 323 p. DS778.7 .T46 1988

Reprint. Originally published: New York, Knopf, 1987.

Tien, H. Yuan.

China's demographic dilemmas. Population bulletin, v. 47, June 1992: whole issue (44 p.)

"Examines the development and consequences of the strict population planning control measures introduced in the 1970s, and strengthened in the early 1980s, Success of these measures has led to a rapid aging of the population, a marriage squeeze, charges of female infanticide, and international approbation and censure . . . . Although economic development and reforms have improved life for many Chinese, there is a widening gap between residents of rural and urban areas. In addition, industrialization, combined with China's large population, are contributing to a serious deterioration of the country's natural resources."

Tsai, Wen-hui.

Women, children, and the elderly in Asia. American Asian review, v. 11, fall 1993: whole issue (151 p.)

Contents.--Traditional values and caregiving structure: a comparison between China and Japan, by Hongqiu Yang.--A comparative study of living conditions among the elderly in two regions: the case of China and Hong Kong, by Iris Chi and others.--Differences in the political attitudes of women and men legislators in Taiwan, by Bih-er Chou, Cal Clark, & Janet Clark.--Achieving excellence, efficiency, and equity in public education: lessons from Japan, by Peter Iadicola.--Women, work, and child care in Taiwan: changing family dynamics in a Chinese society, by Catherine S. Farris.

U.S. Congress. House. Committee on Foreign Affairs.

The political situation in China; report of a staff study mission to Shanghai, Nanjing, Beijing, Chengdu, Guangzhou, Shenzhen, and Hong Kong, December 1990. Washington, G.P.O., 1991. 8 p.

At head of title: 101st Congress, 2nd session, committe print.

Waldron, Arthur.

China's coming constitutional challenges. Orbis, v. 39, winter 1995: 19-35.

"The current situation puts China neighbors and the rest of the world in a difficult double bind. For short-term stability, the easiest policy is to support the present regime; but for middle- and longer-term peace, it may be in the United States's interest to support regime change. If the post-Deng transition brings a strong liberalizing leadership to power, the difficulty may be avoided. But if that does not happen, then we face unpleasant prospects."

From war to nationalism: China's turning point, 1924-1925. Cambridge; New York, Cambridge University Press, 1995. (Cambridge studies in Chinese history, literature, and institutions)

This work should be available later in 1995.

Wang, Shaoguang.

Failure of charisma: the Cultural Revolution in Wuhan. Oxford; New York, Oxford University Press, 1995.

This work should be available later in 1995.

Wasserstrom, Jeffrey N.

Student protests in twentieth-century China: the view from Shanghai. Stanford, Calif., Stanford University Press, 1991. 428 p. LA1134.S4 W37 1991

Weller, Robert P.
Resistance, chaos, and control in China: Taiping rebels, Taiwanese ghosts, and Tiananmen. Seattle, University of Washington Press, c1994. 255 p.
DS759 .W455 1994
"Character list" in Chinese (transliterated and untransliterated)

White, Theodore Harold. Jacoby, Annalee
Thunder out of China. New York, Da Capo Press, 1980, c1946. 331 p.
DS777.53 .W48 1980
Reprint of the ed. published by W. Sloane Associates, New York.

Wilson, Dick.
China's revolutionary war. New York, St. Martin's Press, 1991. 194 p.
DS775.4 .W54 1991

Xian, Gao.
Political structural reform and the future of democratization in China. Journal of legislation, v. 16, no. 1, 1989: 47-57.
Examines "general ideas of China's political structural reform . . . . contains several comments on these reformist ideas . . . . look[s] at a few points of comparison between reforms in China and those now taking place in the Soviet Union."

Xizhe, Peng.
China's population control and the reform in the eighties. China report, v. 26, Oct.-Dec. 1990: 385-405.
Notes that China's fertility decreased from 5.7 in 1970 to 2.31 in 1980, more than fifty percent. However, the author assesses a reverse trend which brought the total fertility rate for China back up to 2.59 in 1987. This "fluctuation is most serious in the rural areas, [and] is believed to be closely associated with the political and economic reform."

Xu, You. Ji, You.
In search of blue water power: the PLA Navy's maritime strategy in the 1990s and beyond. Canberra, Strategic and Defence Studies Centre, Australian National University, 1990. 19 p. (Working paper no. 222)
"In 1985, the Chinese Navy announced that its maritime strategy would be shifted from passive brown water defence to active green water defence . . . . The last years of the 1980s saw a new element added to the strategy, the open-ocean training program, which is viewed as preparation for the Navy's exercise of blue water power in the next century . . . . This paper is an attempt to assess the Navy's strategy in the 1990s and at the same time analyse its logical further development."

Yang, Benjamin.
From revolution to politics: Chinese communists on the long march. Boulder, Westview Press, 1990. 338 p. (Westview special studies on China)
DS777.5134 .Y36 1990

Yang, Kai-huang.
Mainland Chinese society and the campaign against "peaceful evolution." Issues & studies, v. 28, June 1992: 16-34.
"Since the suppression of the student democracy movement in June 1989, the Peking regime has been working to reassert its control over mainland Chinese society and combat perceived efforts to effect a 'peaceful evolution' to capitalism . . . . To stay in power, the regime must compromise. In these circumstances, the free world, particularly Taiwan, should devise a long-term program which would encourage the growth of social autonomy in mainland China, as this would result in the gradual development of democracy and avoid a descent into chaos on a par with the Soviet Union."

Yang, Quanhe.
Fertility change in rural China, 1949-1982. Population research and policy review, v. 10, 1991: 157-182.
"In the present study, the technique of life table analysis is used to examine fertility change by birth order in rural China, particularly in the rural portion of Anhui province. The study mainly focuses on the relationship between fertility change by birth order and planned socioeconomic changes. Change in fertility by birth order

in the last few decades in rural China and Anhui is used as an indicator of the effects of planned socioeconomic changes on the process of family building."

Ye, Deng.
The "equilibrium" and the political contention between Kuomintang and communist forces. Social sciences in China, no. 4, 1994: 122-137.

"The growth of the Communist Party of China (CPC) from 1944 to 1946 put the system of 'political tutelage' under a single party, which was pursued by the Kuomintang (KMT), to a stiff challenge, posed by the call for a multi-party coalition system. The KMT and the CPC held a series of negotiations centering, in essence, on the redistribution of power by the central government. However, the breakdown of the talks led to the last massive civil war of the Republic period, a war which was to decide who would unify China."

Yi, Mu. Thompson, Mark V.
Crisis at Tiananmen: reform and reality in modern China. San Francisco, China Books & Periodicals, c1989. 283 p. DS779.32 .Y5 1989

Yu, Peter Kien-hong.
Regional military separatism in communist China. Global affairs, v. 8, spring 1993: 154-166.

"The available evidence indicates that the Chinese military, in general, supports the present efforts by the leadership in Beijing to modernize the mainland's retrograde economy. The leadership of the military recognizes that the institutional future of the PLA [People's Liberation Army] is tied to the availability of expensive modern weapon systems, equally expensive advanced current technology, and sea and airlift capabilities it does not now possess. Beijing has sought to placate the military by increasing its welfare benefits, its funding and its modernization."

Yuasa, Makoto.
China: on the brink of chaos. Tokyo business today, v. 62, Mar. 1995: 28-31.

"China-watchers have long worried about the situation following Deng Xiaoping's demise, but now the problem is out in the open. Despite his position, President Jiang Zemin seems incapable of ruling, and his rivals are not much better off. The real danger lies in steadily increasing social unrest. Even last year, while Deng was nominally in control, riots, strikes, and farmer rebellions erupted. The sabotage of military installations and the existence of an organized anti-government underground indicate just how badly order has deteriorated."

Zhang, Zhimei.
Foxspirit: a woman in Mao's China. Montreal, Vehicule Press; Don Mills, Ont., by General Distribution Services [1992] 234 p. DS778.Z53 A3 1992

Zhao, Suisheng.
A tragedy of history: the Chinese search for democracy in the twentieth century. Journal of contemporary China, no. 3, summer 1993: 18-37.

"Examine[s] the historical reality of the Chinese search for democracy in the past one hundred years and explore[s] the reasons why Chinese democracy has always ended with tragedy."

Zheng, Yongnian.
Development and democracy: are they compatible in China? Political science quarterly, summer 1994: 235-259.

"Analyzes the tensions between economic development and political democracy in China using for the first time, recently published Chinese public opinion surveys . . . . Examines the tension generated by rapid economic growth, which facilitates political liberalizations and the constraints on democracy insisted upon by many of the Chinese senior political elites."

I. RESOLVED: THAT THE UNITED STATES GOVERNMENT SHOULD SUBSTANTIALLY CHANGE ITS FOREIGN POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA.

Abrams, Burton.
China's Tibet problem. Reason, v. 19, Mar. 1988: 46.

"The Tibetan devotion to the Dalai Lama is at the core of the conflict between Beijing and Lhasa, because the Dalai Lama refuses to acknowledge the Chinese government's political authority in Tibet. This, of course, violates the First Commandment of governments. Beijing has sought a reconciliation and has even invited the Dalai Lama back, if only he would be content to be a spiritual leader and leave the business of government to Beijing."

Adelman, Jonathan R. Shih, Chih-Yu.
Symbolic war: the Chinese use of force 1840-1980. Taipei, Taiwan, Institute of International Relations, National Chengchi University, 1993. 261 p. (English monograph series no. 43)

Contents.--Imperial China.--Guomindang China.--Communist China.--Conclusions.

After Tiananmen Square: challenges for the Chinese-American relationship. Washington, Brassey's (US), 1990. 124 p.

Contents.--China's internal dynamics in the 1990s: political, economic and social trends, by Jurgen Domes.--China's global strategic perspectives on the Third World, by Chen Qimao.--China's evolving interests in the Western Pacific: Korea, Hong Kong, Taiwan and ASEAN, by Harlan Jencks.--China's policies toward Vietnam and Cambodia in the 1990s, by Douglas Pike.--The Sino-American relationship: a Chinese perspective, by Ding Xinghao.--Sino-American relations since Tiananmen Square, by Robert L. Pfaltzgraff, Jr.

The Aftermath of the 1989 Tiananmen crisis in Mainland China. Edited by Bih-jaw Lin and others. Boulder, Colo., Westview Press, 1992. 460 p. DS779.2 .A35 1992

"Published in cooperation with the Institute of International Relations, Taipei, Taiwan, Republic of China"

Alexander, Bevin.
The strange connection: U.S. intervention in China, 1944-1972. New York, Greenwood Press, 1992. 245 p. (Contributions to the study of world history, 0885-9159; no. 34) E183.8.C5 A66 1992

Amer, Ramses.
The ethnic Chinese in Vietnam and Sino-Vietnamese relations. Kuala Lumpur, Forum, 1991. 154 p. DS556.45.C55 A45 1991

America's China policy. Proceedings of the Academy of Political Science, v. 38, no. 21, 1991: 149-189.

Contents.--America's China policy: developing a fifth strategy, by Daznvid M. Lampton.--New dynamics in China-United States relations, by Arthur W. Hummel, Jr.--A Chinese educator's view of China-United States relations, by Xie Xide.--Improving China-United States relations, by Zhang Wenpu.

America's China policy and the role of the Congress, the press, and the private sector. Edited by Andrew B. Brick. Washington, Heritage Foundation, 1991. 42 p. (Heritage lectures 338)

"Approaches China policy-making as a pluralistic process, informed simultaneously on a great variety of fronts by a great variety of voices."

Anderson, David L.
Imperialism and idealism: American diplomats in China, 1861-1898. Bloomington, Indiana University Press, c1985. 237 p. E183.8.C5 A735 1985

Anwar, Dewi Fortuna.
Indonesia's relations with China and Japan: images, perception and realities. Contemporary Southeast Asia, v. 12, Dec. 1990: 225-265.

"This article focuses on Indonesia perceptions of its relations with China and Japan and describes the development of Indonesian foreign policy from the time of its independence, during the Guided Democracy period under Soekarno, to the New Order government under Soeharto."

Bachman, David.
Influencing China. Washington, National Bureau of Asian Research, 1994. 13 p.

"The executive and legislative branches of the U.S. government have debated and argued about China's MFN status since the Massacre of June 4, 1989."

Bachrack, Stanley D.
The Committee of One Million: "China Lobby" politics, 1953-1971. New York, Columbia University Press, 1976. 371 p. JX1428.C6 B3

Bagby, Wesley Marvin.
The Eagle-Dragon alliance: America's relations with China in World War II. Newark, University of Delaware Press; London; Cranbury, NJ, Associated University Presses, 1992. 306 p. D753 .B23 1992

Bailey, S. F.
Hong Kong and China: a difficult combination. Contemporary review, v. 258, Mar. 1991: 113-119.

Considers likely economic changes for Hong Kong after 1997 when that British Crown Colony will become part of China.

Barnett, A. Doak.
The making of foreign policy in China: structure and process. Westview Press/Foreign Policy Institute ed. Boulder, Colo., Westview Press; [Washington, D.C.], Foreign Policy Institute, School of Advanced International Studies, Johns Hopkins University, 1985. 160 p. (SAIS papers in international affairs; no. 9) JX1570 .B37 1985

Bean, R. Mark.
Cooperative security in Northeast Asia. Washington, National Defense University, for sale by the Supt. of Docs., G.P.O., 1990. 198 p.

Contents.--The changing security environment.--The emerging triangle: China-Japan-South Korea.--Toward a stronger triangle.--Security threat and response.--The triangle and the United States.

Beijing takes cautious stance on Russian political crisis. FBIS trends, Oct. 6, 1993: 25-40.

"Although clearly concerned about the possible regional impact of the recent political upheaval in Russia, Beijing has taken a hands-off approach toward the Russian crisis, reiterating its longheld doctrine of noninterference in the internal affairs of other countries and reporting in an evenhanded fashion on political events there. Beijing's neutrality will not likely have an adverse affect on China's relations with Russia if Russian President Boris Yeltsin prevails."

Beijing takes more optimistic view of Sino-U.S. ties. FBIS trends, Oct. 27, 1993: 1-2.

"In the wake of recent visits to China by U.S. Secretary of Agriculture Mike Espy and Assistant Secretary of State for Human Rights and Humanitarian Affairs John Shattuck, Beijing has adopted a more upbeat public line on Sino-U.S. relations, a media shift that may reflect a new willingness in China to work toward removing the chill that has been evident in the relationship in recent weeks. At the same time, Beijing has given no indication publicly that it is prepared to make concessions on human rights and other issues in order to comply with U.S. demands for improving bilateral relations."

Beller, Richard D.
Analyzing the relationship between international law and international politics in China's and Vietnam's territorial dispute over the Spratly Islands. Texas international law journal, v. 29, spring 1994: 293-320.

Contents.--Political analysis.--International law and the Spratlys.--Analysis of China's and Vietnam's power.

Bennett, Michael.
The People's Republic of China and the use of international law in the Spratly Islands dispute. Stanford journal of international law, v. 28, spring 1992: 425-450.

"This article analyzes both the Spratly Islands dispute and the way in which the dispute illustrates the PRC's approach to international law. The article first describes the islands and their importance due to their strategic value and natural resources. It then examines the Chinese claim, based on historical control over the islands, in light of the current international law governing sovereignty over new territory. Third, it analyzes the PRC's attitude toward international law, and how that attitude has changed to suit Chinese needs, especially in the case of the Spratly Islands."

Bert, Wayne.
Chinese policy toward democratization movements: Burma and the Philippines. Asian survey, v. 30, Nov. 1990: 1066-1083.

"This article is an inquiry into China's attitude and policy toward situations where a reform movement was trying to replace or reform a rigid and inefficient government in a geographical area of strategic and economic importance to China. The key questions can be put thus: as the crises deepened in Burma and the Philippines, was China's policy toward democratization aimed at continuing good relations with the friendly but not threatened 'old regime' and maintaining the status quo or at establishing rapport with and supporting the movement or party attempting to take power; and second, were China's reasons for giving or withholding support based on its advocacy of reform per se, or protection of its security and economic interests through diplomatic and foreign policy means?"

Betts, Richard K.
Wealth, power, and instability: East Asia and the United States after the Cold War. International security, v. 18, winter 1993-94: 34-77.

With regards to China, argues that "gambling that wealth will produce democracy some time in the future is compromising balance of power norms too much . . . . After the Cold War, supporting liberal political values in China is compatible with concern about balance of power . . . . If a concert of great powers in East Asia is feasible, we should seek it. Second choice would be regional bipolarity under the old Cold War leaders, Russia and the United States, although this option is not very plausible . . . . Regarding China and Russia, Washington should pressure whichever of the two most threatens others in the region."

Beyond China's independent foreign policy: challenge for the U.S. and its Asian allies. Edited by James C. Hsiung. New York, Praeger, 1985. 215 p. DS779.27 .B49 1985

"Published under the auspices of the Contemporary U.S.-Asia Research Institute, Inc., New York, NY."

"Praeger special studies. Praeger scientific."

Beyond the Cold War in the Pacific. Edited by Miles Kahler. San Diego, Institute of Global Conflict and Cooperation, University of California, 1991. 155 p. (IGCC studies in conflict and cooperation no. 2, 1991)

Partial contents.--The U.S.-Japanese relationship: technological rivalry and military alliance, by Steven K. Vogel.--Chinese foreign policy after Tiananmen, by Susan L. Shirk.--Superpower arms control in the Pacific, by Andrew Mack.--Regional arrangements and international security: an evaluation of ZOPFAN, by Muthiah Alagappa.

Biberaj, Elez.
Albania and China: a study of an unequal alliance. Boulder, Westview Press, 1986. 183 p. (Westview special studies in international relations) DR953.C5 B53 1986

Bobrow, Davis B.
The continuing challenge: balancing autonomy and interdependence. Issues & studies, v. 25, Apr. 1989: 36-56.

"This paper addresses only one aspect of foreign policy, that of underlying strategic emphases and dilemmas . . . . The intent is to find strategies compatible with maintaining one's own political system, national independence, and status aspirations while at the same time achieving the economic and military modernization attainable only through international exchange."

Bobrow, Davis B. Chan, Steve. Kringen, John A.
Understanding foreign policy decisions: the Chinese case. New York, Free Press, c1979. 242 p. JX1428.C6 B6

Brick, Andrew B.
The Asian giants: neighborly ambivalence. Global affairs, v. 6, fall 1991: 70-87.
Contends that "Chinese policy toward Japan seeks, where possible, to play on Japanese sensibilities about the two nations' past."

The case for cautiously resuming Washington-Beijing military ties. Washington, Heritage Foundation, 1990. 17 p. (Backgrounder no. 110)
"The bloody crackdown in Beijing has opened deep fissures in the People's Liberation Army . . . . For Washington, their split is important because it is possible that the PLA could be called decisive in clearing out the political rhetoric and determining which political leaders finally emerge. And with these leaders will come the kind of China which we will have to deal with in the future."

U.S. policy toward China a year after Tiananmen Square. Washington, Heritage Foundation, 1990. 7 p. (Heritage lectures 251)

Brockway, George P.
The dismal science: playing the China card. New leader, v. 77, July 4-18, 1994: 11-12.
Discusses the status of U.S.-China relations.

BuBois, Jean V.
New directions in Chinese strategy. International defense review, v. 11, Nov. 1989: 1483-1484, 1487-1488.
"Some Chinese defense planners and analysts have begun to propose deterrence as a major national defense strategy. While this may be very forward-looking and may represent a new level of sophistication in national defense planning, it will create additional problems. China, historically, lacks the appropriate domestic inputs to develop a stable, long-term defense policy which a deterrent strategy requires."

Bueler, William M.
U.S. China policy and the problem of Taiwan. Westport, Conn., Greenwood Press, 1980, c1971. 143 p. E183.8.C5 B76 1980
Reprint of the ed. published by Colorado Associated University Press, Boulder.

Building Sino-American relations: an analysis for the 1990s. Edited by William T. Tow. New York, Paragon House, c1991. 327 p. E183.8 C5 B79 1991

Bullard, Monte R.
US-China relations: the strategic calculus. Parameters, v. 23, summer 1993: 86-95.
"This article will examine some of the factors that shape the US-China strategic relationship and how that relationship, in turn, might affect general American foreign policy toward China."

Bush, Richard.
Clinton and China: scenarios for the future. China business review, v. 20, Jan.-Feb. 1993: 16-20.
Asserts that China's politics will continue to influence U.S. policy on China's most favored nation status in the Clinton Administration.

Calabrese, John.
China's changing relations with the Middle East. London; New York, Pinter Publishers, c1991. 183 p. DS63.2.C5 C35 1990

From flyswatters to silkworms: the evolution of China's role in West Asia. Asian survey, v. 30, Sept. 1990: 862-876.
"With the exception of the final two years of the Gulf War, China's involvement in West Asia had had little noticeable impact on the region . . . . But in 1987 American naval vessels deployed to the Persian Gulf were discovered to be vulnerable to Silkworm missiles China had sold to Iran, and China's involvement in West Asia

suddenly mattered . . . . Was China's arms business in the Gulf its only business in the region?"

Camilleri, Joseph A.
Chinese foreign policy: the Maoist era and its aftermath. Oxford, M. Robertson, 1980. 311 p. DS777.8 .C26

Carlson, Jude.
Tibet in the news. Bulletin of concerned Asian scholars, v. 24, no. 2, 1992: 25-49.
Explores "the status of Tibet and the quality of U.S. [news] coverage."

Chan, Gerald.
China and international organizations: participation in non-governmental organizations since 1971. Hong Kong; New York, Oxford University Press, 1989. 225 p. HS81.C5 C47 1989
Revision of doctoral thesis--Griffith University, 1986.

Sino-Vatican diplomatic relations: problems and prospects. China quarterly, no. 120, Dec. 1989: 814-836.
"This article is divided into four sections. The first two discuss respectively the two areas of dispute, drawing on Sino-Vatican relations before and after 1949 to set them in context. The third section explores the possibilities for reconciliation, and the fourth concludes with an analysis of the future prospects of Sino-Vatican relations."

Chang, Chia-lin.
China's response to the downfall of Communism in Eastern Europe and the Soviet Union. [Stanford] Hoover Institution on War, Revolution, and Peace, Stanford University, 1994. 26 p. (Essays in public policy; no. 48) DJK45.C6 C47 1994
Author's name transcribed as "Jialin Zhang."

Chang, Gordon H.
Friends and enemies: the United States, China, and the Soviet Union, 1948-1972. Stanford, Calif., Stanford University Press, 1990. 383 p. (Modern America (Stanford, Calif.)) E183.8.C6 C47 1990

Chang, Maria Hsia.
Taiwan and the Mainland: a shifting competition. Global affairs, v. 7, summer 1992: 14-28.
"In any future negotiation between Taiwan and mainland China concerning their reunification, their respective power will be a primary determinant--defined in military, political and economic terms."

Chang, Pao-Min.
A new scramble for the South China Sea Islands. Contemporary Southeast Asia, v. 12, June 1990: 20-39.
"This article surveys the developments in the Spratly islands since 1986 when China began to intensify its naval activities in the area, spurring a five-power scramble for the control of these islands." So far five countries claim sovereignty over the Spratly's: China, Vietnam, Philippines, Taiwan, and Malaysia.

Chang, Ya-chun.
Peking's foreign policy since 1949--a struggle for autonomy. Issues & studies, v 25, Oct. 1989: 40-59.
"Since its establishment, the Peking government has pursued a so-called 'new-type socialist foreign policy' intended to ensure its survival and to seek growth . . . to reunify the country, and to increase its influence in the international society while improving its international standing . . . . The drastic changes in Peking's foreign policy during the past four decades in actuality reflect Peking's desire to gain a high degree of autonomy in the international arena."

The Changing world order. Survival, v. 32, Mar.-Apr. 1990: 99-172.
Contents.--The remaking of Europe, by Michael Howard.--The passing of the Soviet order? by Seweryn Bialer.--The year of Europe: a Soviet view, by Sergei A. Karaganov.

Chen, Frederick Yen-Ching.
Reconsidering US policy toward China in the post-Tiananmen era. International review, v. 12, summer 1990: 41-43.
Contends that "while Bush's policy may have averted a stronger reactionary response from China . . . it has not brought forward any concrete results or concessions."

Chen, Jie.
Ideology in U.S. foreign policy: case studies in U.S. China policy. Westport, Conn., Praeger, 1992. 142 p. E183.8.C5 C427 1992

Chen, Qimao.
New approaches in China's foreign policy. Asian survey, v. 33, Mar. 1993: 237-251.
"This article attempts to introduce Beijing's views of the international environment after the Cold War and examine China's new approach to, and adjustment of its foreign policy."

Chern, Kenneth S.
Dilemma in China: America's policy debate, 1945. Hamden, Conn., Archon Books, 1980. 277 p. E183.8.C5 C434

China & Japan: a new balance of power. Edited by Donald C. Hellmann. Lexington, Mass., Lexington Books, c1976. 305 p. (Critical choices for Americans; v. 12) E183.8.C5 C46
"Prepared for the Commission on Critical Choices for Americans."

China and Japan: history, trends and prospects. China quarterly, no. 124, Dec. 1990: whole issue (599-729 p.)
Contents.--An overview of relations between China and Japan, 1895-1945, by Ian Nish.--Chinese-Japanese relations, 1945-90, by Akira Iriye.--Sino-Japanese controversy since the 1972 diplomatic normalization, by Hidenori Ijiri.--China, Japan and economic interdependence in the Asia Pacific region, by Christopher Howe.--Plant and technology contracts and the changing pattern of economic interdependence between China and Japan, by Yoichi Yokoi.--The Sino-Japanese relationship and East Asian security: patterns and implications, by Jonathan D. Pollack.

China and the world. Caribbean affairs, v. 7, May-June 1994: 150-194.
"The Republic of Trinidad and Tobago and the People's Republic of China will celebrate the 20th anniversary of diplomatic relations between the two countries on June 20, 1994. As Minister of Foreign Affairs, the Hon. Ralph Maraj points out however, ties between the two countries began as far back as the early 19th century. To mark this anniversary. Caribbean Affairs publishes this Special Report on China and the World."

China and the world: Chinese foreign policy in the post-Mao era. Edited by Samuel S. Kim. Boulder, Colo., Westview Press, c1984. 354 p. DS779.27 .C4873 1984

China and the world: Chinese foreign relations in the post-cold war era. Edited by Samuel S. Kim. 3rd ed. Boulder, CO, Westview Press, c1994. 304 p. DS779.27 .C4873 1994

The China challenge: American policies in East Asia. New York, Academy of Political Science, 1991: whole issue (195 p.)
Partial contents.--China in the emerging world order.--Regional issues.--China-United States relations.

China-Kazakhstan. FBIS trends, Oct. 27, 1993: 3-5.
"Reflecting the deepening ties between the two countries, Beijing and Almaty used the 18-21 October visit to China by Kazakhstani President Nursultan Nazarbayev to put their bilateral relationship on a new footing, singing a joint statement that outlined the 'principled basis' for Sino-Kazakhstani relations and playing down differences on border and nuclear issues."

China's foreign relations: a chronology of events (1949-1988). Compiled by Home News Library of the Xinhua News Agency. 1st ed. Beijing, Foreign Languages Press, 1989. 618 p. DS777.8 .C456 1989

China's foreign relations in the 1980s. Edited by Harry Harding. New Haven, Yale University Press, c1984. 240 p. DS779.27 .C5 1984
"Published in cooperation with the Asia Society, New York"

Chinese foreign policy: theory and practice. Edited by Thomas W. Robinson and David Shambaugh. Oxford, Clarendon Press; New York, Oxford University Press, 1994. 644 p. (Studies on contemporary China (Oxford, England)) DS777.8 .C463 1994

The Chinese view of the world. Edited by Yufan Hao and Guocang Huan. New York, Pantheon Books, c1989. 350 p. DS779.27 .C534 1989

Chiu, Hungdah.
Recent Chinese Communist policy toward Taiwan and the prospect for unification. Issues & studies, v. 27, Jan. 1991: 13-30.
"Despite the rejection by the Republic of China (ROC) of the PRC's terms for unification . . . the PRC decided to implement its 'one country, two systems' policy with Hong Kong and is attempting to use that as a model for unification with Taiwan."

Christensen, Thomas J.
Treats, assurances, and the last chance for peace. International security, v. 17, summer 1992: 122-154.
"In Cold War history few topics have received more attention than the 1950 Sino-American crisis over Korea. China's massive attack on UN troops in late November 1950 led to the longest retreat in American military history, an epic confrontation between the Truman administration and General Douglas MacArthur, and a polarizing domestic political debate about policy toward China. One major point of controversy was the question of how Mao might have been dissuaded from escalating China's involvement in Korea . . . . This article presents new documents from China--Mao's Korean War telegrams to Stalin, Zhou Enlai, and Chinese military commanders in the field--that force a reassessment of both positions in the Truman-MacArthur debate."

Chronology of U.S.-China relations. Congressional quarterly weekly report, v. 47, June 10, 1989: 1412-1413.
Traces events from 1900 to 1989.

Chu, Shulong.
The PRC girds for limited, high-tech war. Orbis, v. 38, spring 1994: 177-191.
"The end of the cold war has caused many states to reevaluate their security strategies, China not least among them. To understand the direction that Chinese security strategy is likely to take, it is necessary to first define the factors by which it is most influenced. These include Chinese leaders' current perceptions of the world security environment and the threats to China's security, and the status of China's domestic situation, including the economic and political climate. Only after these factors have been considered can one fully understand the options currently debated by Chinese security strategists."

Cline, Ray S. Fontaine, Roger W.
Foreign policy failures in China, Cuba, and Nicaragua: a paradigm. Washington, U.S. Global Strategy Council, 1992. 246 p. E744 .C595 1992

Cline, Ray S.
New realities for America's China policy. Strategic review, v. 17, fall 1989: 31-35.
"Deep uncertainties becloud the PRC's evolution in the wake of the Tiananmen Square massacre and a hardened regime's retightening of totalitarian controls. The United States must maintain its ties with Beijing in the hope of influencing those developments."

Coble, Parks M.
Facing Japan: Chinese politics and Japanese imperialism, 1931-1937. Cambridge, Mass., Council on East Asian Studies, Harvard University, Distributed by Harvard University Press, c1991. 492 p. (Harvard East Asian monographs; 135)
DS777.47 .C65 1991

Cohen, Warren I.
America's response to China: a history of Sino-American relations. 3rd ed. New York, Columbia University Press, c1990. 241 p. E183.8.C5 C62 1990

Conable, Barber B., Jr. Whitehead, John C.

United States and China relations at a crossroads. Washington, Atlantic Council of the United States; New York, National Committee on United States-China Relations, 1993. 43 p. (Policy paper)

Partial contents.--U.S.-China relations: past and future.--America faces a changing China.--Taiwan: developments and implications.--Hong Kong: developments and implications.--Views from the Pacific region.--Views of Europe and the former Soviet Union.

Conable, Barber M., Jr. Lampton, David M.

China: the coming power. Foreign affairs, v. 71, winter 1992-93: 133-149.

"If the current strains in America's relations with China deteriorate into a U.S. policy of benign neglect or outright hostility, the damage could be widespread to the United States' economic future.

Congressional Quarterly, inc.

China: U.S. policy since 1945. Washington, Congressional Quarterly, [c1980] 387 p.
E183.8.C5 C72 1980

Congressional Research Service. Foreign Affairs and National Defense Division.

China and Asia--an analysis of China's recent policy toward neighboring states. Report by the Foreign Affairs and National Defense Division, Congressional Research Service, Library of Congress; preceded by a State Department report on normalization negotiations with China. Prepared for the Subcommittee on Asian and Pacific Affairs of the Committee on Foreign Affairs, U.S. House of Representatives. Washington, G.P.O., 1979. 54 p. DS33.4.C5 U54 1979

At head of title: 96th Congress, 1st session. Committee print.

Playing the China card: implications for United States-Soviet-Chinese relations. Report prepared for the Subcommittee on Asian and Pacific Affairs of the Committee on Foreign Affairs, U.S. House of Representatives, by the Foreign Affairs and National Defense Division, Congressional Research Service, Library of Congress. Washington, G.P.O., 1979. 27 p. E183.8.C5 U58 1979

At head of title: 96th Congress, 1st session. Committee print. Prepared by Robert G. Sutter and Michael Baron.

Recognizing the People's Republic of China: the experience of Japan, Australia, France, and West Germany. Report prepared for the Subcommittee on Asian and Pacific Affairs of the Committee on Foreign Affairs, U. S. House of Representatives, by the Foreign Affairs and National Defense Division, Congressional Research Service, Library of Congress. Washington, G.P.O., 1979. 33 p. DS777.55 .U55 1979

At head of title: 96th Congress, 1st session. Committee print. Prepared by Luella Sue Christopher and Robert G. Sutter.

Sino-American relations: from the Shanghai communique to the present. Report prepared for the Subcommittee on Asian and Pacific Affairs of the Committee on Foreign Affairs, U.S. House of Representatives, by the Foreign Affairs and National Ddfense Division, Congressional Research Service, Library of Congress. Washington, G.P.O., 1980. 12 p. E183.8.C5 U58 1980

At head of title: Committee print. 96th Congress, 2d session.

Contemporary China and the changing international community. Columbia, S.C., University of South Carolina Press, c1994. 396 p. DS799.847 .C63 1994

Selected papers presented at Sino-American-European Conference on Contemporary China, held 1992.

Copper, John Franklin.

China diplomacy: the Washington-Taipei-Beijing triangle. Boulder, Westview Press, 1992. 190 p. E183.8.C5 C724 1992

Costa, Christopher K.
One country--two foreign policies: United States relations with Hong Kong after July 1, 1997. Villanova law review, v. 38, no. 3, 1993: 825-870.

"Given the reality, the most effective U.S. policy is one that merges U.S. objectives in Hong Kong and U.S. objectives in China into one comprehensive foreign policy."

Cradock, Percy.
China, Britain and Hong Kong: policy in a cul-de-sac. World today, v. 50, May 1994: 92-96.

"I shall try to explain how the current troubles arose, what the consequences are likely to be, what the prospects are for Hong Kong and British relations with China, and what the alternative policy might have been."

Crane, George T.
China and Taiwan: not yet 'greater China.' International affairs (London), v. 69, Oct. 1993: 705-723.

Examines new directions in China's relations with Taiwan.

D'Amato, James V.
How regimes profit by curbing U.S. television news. Orbis, v. 35, summer 1991: 347-363.

"Censorship of American television news has been imposed in a number of instances in recent years, most notably in coverage of racial unrest in South Africa, the intifada in the territories occupied by Israel, and the events at Tiananmen Square in China." Considers consequences for the U.S. and for each country of this policy.

Deadlock over China policy: is a new consensus possible? Report of the thirty-second strategy for peace, US Foreign Policy Conference. Muscatine, Iowa, Stanley Foundation, 1991. 20 p.

"For two years, President Bush's administration and Congress have been deadlocked over US policy toward China. The debate has raged over the proper role of human rights in bilateral relations and how these values should be expressed in policy. This stalemate reflects a lack of consensus among the public and their political leaders over the United States relationship with China in the new, but as yet undefined, era of post-Cold War international relations. It also reflects differing views about China and its policies."

Delfs, Robert.
Back to the future: while China marks time, old dogma rules. Far Eastern economic review, v. 149, Aug. 1990: 29, 31-32, 34, 38-40, 42-44, 46-48.

Contents.--Foreign policy: exit (world stage left).--Profiles [prominent younger politicians].--Economy: the long, long road back.--Foreign investment: Taiwan money one bright spot.--Special economic ones.--Defense: basic Marxist training.--Culture: cultural purge sweeps clean.

Deliusin, Lev.
The influence of China's domestic policy on its foreign policy. Proceedings of the Academy of Political Science, v. 38, no. 2, 1991: 53-62.

Ding, Arthur S.
Peking's foreign policy in the changing world. Issues & studies, v. 27, Aug. 1991: 17-30.

"Peking's perception of the world situation has changed since its clampdown on the pro-democracy movement in 1989 and the more recent Persian Gulf war. While continuing to believe that a peaceful world environment can be maintained, Peking has begun suggesting that the international situation has become more turbulent and volatile."

Dreyer, June Teufel.
U.S.-China military relations: sanctions or rapprochement? In depth, v. 1, spring 1991: 8-24.

"Shortly after the Tiananmen incident of June 4, 1989, President Bush announced certain restrictions on military contacts and the transfer of military and military-related technology to the People's Republic of China. Feeling strongly that United States and Chinese interests were best served by concilatory rather than punitive actions, the president acted almost immediately to vitiate the effect of several of these sanctions."

Dumbaugh, Kerry.
The making of China policy since Tiananmen. China business review, v. 19, Jan.-Feb. 1992: 16-19.
"For the past two and one-half years U.S. policy on China has been characterized by confrontation between the legislative and executive branches, not just over the issues involved, but over the respective roles of each branch in setting U.S. policy."

Emerson, J. Terry.
An American view of "one country, two systems." Issues & studies, v. 24, Sept. 1988: 35-49.
"The challenge of the goal shared by both Taipei and Peking is the political reunification of China . . . . Peking has proposed the concept of 'One Country, Two Systems' as a model for the unification of China and for invigorating the domestic economy. It is the purpose of this article to ask whether Peking's policy offers a workable formula for consolidation of the Chinese nation . . . . The formula is fatally flawed. It does not offer a workable arrangement for linking Taiwan to the mainland."

Evans, Gareth.
Security in the Asia-Pacific region. International defense review, 1995: 52-57.
Examines security concerns which affect the Asia-Pacific region. These include the level of U.S. involvement in the region, the North Korean nuclear issue, China's military growth, and other topics.

Fairbank, John King.
The United States and China. 4th ed., enl. Cambridge, Mass., Harvard University Press, 1983. 632 p. (American foreign policy library.) DS735 .F3 1983

Faust, John R. Kornberg, Judith F.
China in world politics. Boulder, Colo., Lynne Rienner Publishers, 1995.
This work will be available later in 1995.

Feinerman, James V.
Deteriorating human rights in China. Current history, v. 89, Sept. 1990: 265-269, 279-280.
"Now that more than a year has passed since China's human rights cataclysm of June, 1989, Chinese leaders are providing conflicting signals about their future conduct . . . . The direction in which China plans to move with respect to human rights remains uncertain."

Fifoot, Paul.
One country, two systems--Mark II: from Hong Kong to Macao. International relations, v. 12, Apr. 1994: 25-58.
"The Basic Law of the Macao Special Administrative Region . . . is essentially identical to the Basic Law of the Hong Kong Special Administrative Region regarding the general structure and major principles. At the same time . . . the Basic Law reflects Macao's characteristics." Considers implications of these legal systems.

Foot, Rosemary.
The practice of power: American relations with China since 1949. Oxford, Clarendon Press, 1995.
This work will be available later in 1995.

Fu, Jen-kun.
Taiwan and the geopolitics of the Asian-American dilemma. New York, Praeger, 1992. 145 p. DS799.847 .F8 1992

The Future of Chinese-American relations: [forum] held on March 28, 1979 and sponsored by the American Enterprise Institute for Public Policy Research, Washington, D.C. John Charles Daly, moderator. Washington, American Enterprise Institute for Public Policy Research, c1979. 35 p. (American Enterprise Institute for Public Policy Research. AEI public policy forum; 29.) E183.8.C5 F84

Gallanger, Michael G.
China's illusory threat to the South China Sea. International security, v. 19, summer 1994: 169-194.
"Discusses the basis for the dispute over the Spratly Islands, and includes an examination of the terrorial claims of China and its rivals, and the significance of the

Spratly Islands dispute in international politics .... Analyzes the military balance between China and some of its smaller neighbors .... Describes some of the international political and economic constraints on aggressive action in the South China Sea."

Gardner, Hall.
China and the world after Tiananmen Square. SAIS review, v. 10, winter-spring 1990: 133-147.

"By July 1989, with the crushing of the pro-democracy movement . . . Sino-U.S. relations reached their lowest point since the 1978 normalization of diplomatic ties. The danger in the coming years is that in its attempts to co-opt the pro-democracy movement, the Chinese Communist party will pursue a more assertive foreign policy. Only a new foreign policy involving U.S., Soviet, Western European and Japanese cooperation designed to manage, but not alienate, Chinese aspirations for great power status can limit the potential militarization of the Asian theatre, as well as work toward democratic reform in China."

Garson, Robert A.
The United States and China since 1949: a troubled affair. Madison, Fairleigh Dickinson University Press, c1994. 246 p. E183.8.C5 G35 1994

Garver, John W.
Foreign relations of the People's Republic of China. Englewood Cliffs, N.J., Prentice Hall, c1993. 346 p. DS777.8 .G37 1993

Gill, R. Bates.
The challenge of Chinese arms proliferation: U.S. policy for the 1990s. Carlisle Barracks, Pa., Strategic Studies Institute, U.S. Army War College, 1993. 77 p.

Contents.--Background and recent developments in Chinese arms transfers.--Patterns and motivations in Chinese arms transfers.--The principal treat: Chinese exports of advanced technologies.

Glassman, Peter.
Sino-American academic exchanges. Change, v. 21, Mar.-Apr. 1989: 37-43.

"Over the past 10 years, as the Chinese and the American peoples grew in their desire to interact successfully, their educational exchanges grew exponentially."

Godley, Michael R.
The sojourners: returned overseas Chinese in the People's Republic of China. Pacific affairs, v. 62, fall 1989: 330-352.

Traces the treatment of ethnic Chinese that migrated to mainland China during the first four decades of Communist rule in China.

Godwin, Paul. Schulz, John J.
Arming the dragon for the 21st century: China's defense modernization program. Arms control today, v. 23, Dec. 1993: 3-8.

"China's recent nuclear test, ending a de facto year-long global testing moratorium, is explained . . . in their analysis of Beijing's motives and strategies for continuing to modernize its nuclear and conventional forces."

Goldman, Merle.
Is there a Chinese view of human rights? Washington, National Bureau of Asian Research, 1994. 8 p.

"China's leaders reject the Clinton administration's linkage of MFN to human rights because they claim that this is a Western view of human rights that is alien to China. Their government ostensibly subscribes to the UN Universal Declaration on Human Rights. But . . . they insist that the political and individual rights in the UN declaration are not part of Chinese tradition."

Goldstein, Joshua S. Freeman, John R.
Three-way street: strategic reciprocity in world politics. Chicago, University of Chicago Press, 1990. 239 p. JX1391 .G595 1990

Goncharov, S. N. Lewis, John Wilson. Xue, Litai.
Uncertain partners: Stalin, Mao, and the Korean War. Stanford, Calif., Stanford University Press, c1993. 393 p. (Studies in international security and arms control) DS740.5.S65 G66 1993

Gong, Gerrit W.

U.S.-China relations in the post-Deng era. World & I, v. 5, Aug. 1990: 143-149.

"As throughout history, China must forge its own destiny. But as it does so, the United States should be there. We must see clearly the historical and systemic contradictions that will continue to bedevil change in the PRC. We must likewise see clearly the limits and proper parameters of our influence."

Grant, Richard L.

China and its Asian neighbors: looking toward the twenty-first century. Washington quarterly, v. 17, winter 1994: 59-69.

"China's international behavior in general will be shaped primarily by its internal political and economic developments. China's interaction with its neighbors in both Northeast and Southeast Asia, therefore, will be determined in part by the leadership that will occur upon the death of Deng Xiaoping. Equally important for its relations with its neighbors in Asia will be the ability of economic reform in the PRC to create stable, sustained economic growth."

Gregor, A. James.

China's shadow over Southeast Asian waters. Global affairs, v. 7, summer 1992: 1-13.

"By the end of the 1980s the PRC had put together a national security policy that could easily become a problem both for its immediate neighbors and for 'vital U.S. interests' in East Asia . . . . The central conviction of Beijing's new national security strategy is that future small wars will be fought on mainland China's periphery in defense of its boundaries. It is this context that Southeast Asia looms large."

"Links" and "exchanges": the mainland policy of the ROC. Global affairs, v. 6, winter 1991: 54-73.

"However insistent the official claim that the ROC persisted in its 'Three Noes' policy (no contact, no negotiation, and no compromise) . . . it was evident that fundamental changes had indeed taken place in the relationship between Nationalist and Communist China."

Gupta, Vipin.

The status of Chinese nuclear weapons testing. Jane's intelligence review, v. 6, Jan. 1994: 31-35.

"China undoubtedly has a well-planned nuclear testing agenda and has demonstrated its willingness to fulfil it in the face of political controversy." Considers implications of this program.

Haber, Deborah L.

The death of hegemony: why "pax nipponica" is impossible. Asian survey, v. 30, Sept. 1990: 892-907.

"The notion of hegemony will be explored and two different definitions of hegemony provided as a framework for demonstrating that Japan does not have the capacity to dominate world politics or economics. The two definitions of hegemony will be applied to Japan's relations with China and India to illustrate the limitations on Japan's ability to dominate Asia."

Harding, Harry.

A fragile relationship: the United States and China since 1972. Washington, Brookings Institution, c1992. 458 p. E183.8.C5 H34 1992

Neither friend nor foe: a China policy for the nineties. Brookings review, v. 10, no. 2, 1992: 6-11.

"To be effective, American China policy must reflect the complexity of China's own domestic and foreign affairs."

'On the four great relationships': the prospects for China. Survival, v. 36, summer 1994: 22-42.

"The divisions within the central political leadership; . . . between the civilian leadership and the military; between the central government and the local authorities; and between the Chinese political apparatus and the society it governs."

Harland, Bryce.
For a strong China. Foreign policy, no. 94, spring 1994: 48-52.
"If the United States were to withdraw China's MFN status, China's income would fall sharply and the expansion of its market would slow dramatically. The people most directly affected would be those in China producing for the U.S. market and those in America exporting to China. But the damaging effects would not stop there. The withdrawal of MFN status would undermine support for the reform process and jeopardize all that has been achieved, in the political as well as the economic spheres."

Harris, Lillian Craig.
China considers the Middle East. London; New York, I.B. Tauris, 1993. 345 p.
DS63.2.C5 H37 1993

Xinjiang, Central Asia and the implications for China's policy in the Islamic world. China quarterly, no. 133, Mar. 1993: 111-129.
"Central Asia is where China and the Islamic worlds meet .... Kazakhstan, Kirghizistan and Tajikistan share borders with Xinjiang. One result of the breakup of the Soviet Union has been the increased pressure of religious sectarianism in Central Asia and the transfer of . . . political/religious dilemmas direct to China's borders. Another has been increased questioning of China's right to sovereignty over Xinjiang."

Hermann-Pillath, Carsten.
Growth and the claim to big-power status in China. Aussenpolitik, v. 45, no. 4, 1994: 374-382.
"This article discusses China's economic development in the broader context of the question of whether it will also lead to the genesis of a new world power."

Hickey, Dennis van Vranken.
America's military relations with the People's Republic of China: the need for reassessment. Journal of Northeast Asian studies, v. 7, fall 1988: 29-43.
"America's military relations with the People's Republic of China (PRC) have grown substantially during the years of the Reagan presidency. The administration announced its willingness to sell arms on a case-by-case commercial basis . . . announced the liberalization of the sale of dual-use technology [and] cleared the way for direct Foreign Military Sales (FMSs) to the PRC. This study will outline the growth in U.S.-PRC military relations, examine a variety of arguments advanced in an effort to justify this development, and argue that an overall reassessment of the policy is in order."

Hinton, Harold C.
Communist China in world politics. New York, Houghton Mifflin [1966] 527 p.
DS777.55 .H55

Hoyt, Edwin Palmer.
The day the Chinese attacked: Korea, 1950: the story of the failure of America's China policy. New York, McGraw-Hill Pub. Co., c1990. 245 p. DS919.5 .H68 1990

Hua, Di.
Recent developments in China's domestic and foreign affairs. Canberra, Strategic and Defence Studies Centre, Australian National University, 1992. 24 p. (Working paper no. 245)
"Examines reorientations in China's domestic and foreign policies occurring in the post-Cold War, post-Gulf War period .... In foreign policy, separate sections of the paper examine developments in China's relations with Russia, the US, Japan and Korea."

Huang, Chih-lien.
China's foreign policy: onto the twenty-first century. China report, v. 27, Oct.-Dec. 1991: 299-308.
"The nineties will mark the beginning of a new era in China's foreign policy."

Iriye, Akira.
China and Japan in the global setting. Cambridge, Mass., Harvard University Press, 1992. 156 p. (Edwin O. Reischauer lectures) DS849.C6 I78 1992

Joffe, Ellis.
China after the Gulf War. Taiwan, Sun Yat-Sen Center for Policy Studies, 1991. 9 p. (SCPS papers no. 7)

"The impact of the Gulf crisis on China's international position has been uneven. In the short term, China gained substantial benefits. Although their role was marginal, the Chinese used the crisis to break out of their post-Tiananmen isolation and to regain a respectable status in the international community. However, the long-term effects of the crisis are more ambiguous."

Jordan, Donald A.
Chinese boycotts versus Japanese bombs: the failure of China's "revolutionary diplomacy," 1931-32. Ann Arbor, University of Michigan Press, c1991. 363 p.
DS740.5.J3 J67 1991

Kapur, Harish.
Distant neighbours: China and Europe. London; New York, Pinter Publishers, 1990. 231 p. D1065.C5 K37 1990

"A Publication of the Graduate Institute of International Studies, Geneva."

Kaye, Lincoln.
One-way street. Far Eastern economic review, v. 156, Nov. 11, 1993: 12-13.

"The US effort to improve ties with China appears to be a one-sided affair, marked by a procession of American visitors to Peking but with little tangible to show for their exertions."

Keobke, Ken.
After the flood. Choices, v. 2, Sept. 1993: 12-15.

"At a time of increasing demands on the United Nations in responding to conflicts and natural catastrophes, the UN Development Programme in China has sought new ways to help flooded communities recover from disaster and prepare for the next."

Kesavan, K. V.
Japan and the Tiananmen Square incident: aspects of the bilateral relationship. Asian survey, v. 30, July 1990: 669-681.

"The Tiananmen military crackdown occurred at a time when Tokyo was making efforts to increase its foreign policy options. Japan's response to the turmoil in China may be studied under three broad headings: diplomatic, economic, and political."

Keum, Hieyeon.
Lukewarm marriage: political and economic components of Peking-Tokyo relations. Issues & studies, v. 27, July 1991: 30-60.

"The bilateral relationship between mainland China and Japan is deeply rooted in history, geopolitics, and culture . . . . Since the mid-1970s, both sides have sought to establish a framework for positive diplomatic and economic relations with each other . . . . This paper deals mainly with the process, problems, and prospects of Peking-Tokyo relations."

Kim, Samuel S.
China in and out of the changing world order. [Princeton, N.J.], Center of International Studies, Princeton University, 1991. 85 p. (World Order Studies Program occasional paper, no.21) DS779.27 .K54 1991

Chinese foreign policy after Tiananmen. Current history, v. 89, Sept. 1990: 245-248, 280-282.

"In 1990, China entered a period of domestic instability and foreign policy uncertainty. In the short span of a year, China has lost the international confidence, a credibility and support that it had garnered during a decade of reform and opening up to the outside world."

Peking's foreign policy in the shadows of Tienanmen: the challenge of legitimation. Issues & studies, v. 27, Jan. 1991: 39-69.

"At no time since the founding of the People's Republic of China (PRC) in 1949 has the question of internal and external legitimation become as conflated, critical, . . . as in the latest round of leadership succession crisis."

Kintner, William R.
The impact of President Nixon's visit to Peking on international politics. Philadelphia, Foreign Policy Research Institute, 1972. 65 p. (Pennsylvania. University. Foreign Policy Research Institute. F.P.R.I. monograph series, no. 13) E183.8.C5 K56

Kirschten, Dick.
Jilted. National journal, v. 26, Aug. 13, 1994: 1918-1922.
"Human rights activists thought they had plenty of friends in the Clinton Administration. But the President's decision to de-link human rights concerns from his China trade policy has left the human rights lobby in a bit of disarray."

Kissinger, Henry.
China: the deadlock can be broken. Washington post, Mar. 28, 1994: A15.
Former Secretary of State asserts that "a reduction of public pressures and a genuine broadening of the dialogue will produce a solution compatible with the self-respect' of both sides."

Koen, Ross Y.
The China lobby in American politics. Edited with an introd. by Richard C. Kagan. New York, Octagon Books, 1974. 279 p. E183.8.C5 K6 1974
"A publication of the Committee of Concerned Asian Scholars."
Reprint of the 1960 ed. published by Macmillan, New York.

Kong, Shiu Loon.
A China-Hong Kong economic unit--a conceptual proposal. Asian economies, no. 83, Dec. 1992: 34-38.
Argues that the natures of the economies of Hong Kong and China are so complimentary that "few people would question the symbiotic nature of the China-Hong Kong relationship, or doubt the immense benefits that can accrue from a creative collaboration between the two partners."

Kristof, Nicholas D.
As China looks at world order, it detects new struggles emerging. New York times, Apr. 21, 1992: A1, A10.
"Any Western-oriented plan for a new international order could face major challenges from this Communist rear guard because China has nuclear warheads, three million troops and significant territorial disputes withits neighbors and because North Korea may be able to make nuclear arms in a few months or years. Both countries may collide regularly with international efforts to promote human rights, to curtail the spread of missiles and nuclear technology, and simply to preserve the peace."

The rise of China. Foreign affairs, v. 72, Nov.-Dec. 1993: 59-74.
"If its economic growth continues, the rise of China will be the most important change in the global economic, political and military balance of the next century. This growth will be accompanied by environmental degradation, an activist foreign policy, and even military adventures. Yet the pervasive tendency to blame China, and the current regime in particular, is misplaced. Most of China's actions are perfectly understandable attempts by a rising power to expand its influence abroad."

Kuan, Chung.
A review of the U.S. China policy (1949-1971) [Taipei] World Anti-Communist League, China Chapter, 1971. 76, 4 p. (Publications of the APACLROC: Pamphlet no. 157) E183.8.C5 K777

Kusnitz, Leonard A.
Public opinion and foreign policy: America's China policy, 1949-1979. Westport, Conn., Greenwood Press, c1984. 191 p. (Contributions in political science, 0147-1066; no. 114) E183.8.C5 K87 1984

Lasater, Martin L.
U.S. policy toward China's reunification. Washington, Heritage Foundation, c1988. 149 p. (Asian studies (Washington, D.C.)) E183.8.C5 L28 1988

Lavin, Franklin L.

Negotiating with the Chinese: or how not to kowtow. Foreign affairs, v. 73, July-Aug. 1994: 16-22.

Contends that "in a political culture where negotiations reflect personal interests and power rather than a desire to solve problems, judicious threats go further than kowtowing."

Lee, Wei-chin.

China and Antarctica. Asian survey, v. 30, June 1990: 576-586.

"The 1959 Antarctic Treaty enjoyed smooth sailing until recently when certain non-Treaty nations looked ahead to 1991, the year the Treaty will become open to review. They fear that Treaty members, acting as 'an exclusive club,' might exploit Antarctic resources that should be treated as the 'common heritage of mankind.' No study has examined the position of the PRC with respect to its views on major substantive issues arising within the context of the Treaty. This article attempts to fill in the gap . . . . No matter what China's motivation--self-interest or global commitment--the PRC apparently believes that a seat at the Consultative Party sessions will provide a better opportunity for it to influence Antarctic developments."

Levine, Steven I.

China and America: the resilient relationship. Current history, v. 91, Sept. 1992: 241-246.

"A calm look at Sino-American relations suggests that neither panic nor complacency is in order. Although the tragedy of Tiananmen may have shattered the bipartisan consensus in the United States on China policy, it merely brought into sharper focus an ongoing reevaluation of the relationship begun several years earlier."

Lewis, John Wilson. Xue, Litai.

China's strategic seapower: the politics of force moderinization in the nuclear age, John Wilson Lewis and Xue Litai. Stanford, Calif., Stanford University Press, c1994. 393 p. (Studies in international security and arms control) VA633.L48 1994

China builds the bomb. Stanford, Calif., Stanford University Press, c1988. 329 p. (ISIS studies in international policy)

Partial contents.--China's quest for security.--American power and Chinese strategy, 1953-1955.--The strategic decision and its consequences.--Chinese lessons and the global nuclear experience.

Li, Shaomin.

What China can learn from Taiwan. Orbis, v. 33, summer 1989: 327-340.

On Oct. 1, 1949, the People's Republic of China was established and defeated Kuomintang retreated to Taiwan establishing the Republic of China. "Since that time, as a result of this dramatic division of the Chinese people, a vigorous competition has taken place: a competition to test the economic and political institutions of two Chinese societies. Today, it is commonly recognized by both sides that Taiwan has won this competition. The leaders of the People's Republic of China are now launching a comprehensive program of reforms." Taiwan could serve as a model for China's socioeconomic restructuring.

Liao, Kuang-sheng.

Antiforeignism and modernization in China, 1860-1980. 2nd ed. Hong Kong, Chinese University Press, 1986. 333 p. DS754.18 .L53 1986

Lilley, Charles R.

American-East Asian relations in the heroic and Whig modes: review essay. Diplomatic history, v. 18, winter 1994: 135-141.

Reviews five recent books tracing the history of U.S. relations with China.

Lin, Chong-Pin.

China's students abroad: rates of return. American enterprise, v. 5, Nov.-Dec. 1994: 12-14.

"Many of China's brightest students are being educated abroad. If these young people return to China in substantial numbers, their effect on China's future political and economic development could be profound."

The stealthy advance of China's People's Liberation Army. American enterprise, v. 5, Jan.-Feb. 1994: 29-35.

"At 3 million strong, the Chinese People's Liberation Army (PLA) is the world's largest military machine. It is also the only army that continues to build up its intercontinental ballistic missiles and to point them unequivocally toward States. PLA leaders, unlike their Russian counterparts, have expressed no intention of altering these targets in the future. The PLA is the pillar of China's power, and it projects this power not only beyond its borders, but also within them."

Lin, Teh-chang.

Foreign aid, a theoretical framework for analyzing communist China's foreign policy. Issues and studies, v. 27, May 1991: 78-102.

Examines factors related to the foreign aid extended by China.

Lintner, Bertil.

Triangular ties. Far Eastern economic review, v. 151, Mar. 28, 1991: 22-24, 26, 28.

Discusses the link between Burma's new heroin druglords and China's Yunnan province.

Contents.--Triangular ties.--The new dealers.--Pushing at the door.

Lippencott, Brent C.

Ending the confusion in U.S. China policy. Washington, Heritage Foundation, 1994 15 p. (Asian Studies Center backgrounder no. 130)

"President Bill Clinton's China policy is based on a fundamental contradiction. On the one hand, the President wants to engage China, hoping to solicit its cooperation on the problem of North Korea and nuclear proliferation. On the other hand, he wants to force China to improve its human rights record, threatening to punish and isolate it with trade sanctions if it does not."

Liu, Shia-ling.

U.S. foreign policy toward Communist China in the 1970's: the misadventures of presidents Nixon, Ford, and Carter. [Taipei, Taiwan, Kuang Lu Pub. Co., c1988]. 50 p.

E183.8.C5 L4965 1988

United States foreign policy toward Communist China in the 1970's.

The Long march: Chinese settlers and Chinese policies in Eastern Tibet; results of a fact finding mission in Tibet. Washington, International Campaign for Tibet, 1991. 27 p.

Lu, Tzu-chien.

China's policy towards territorial disputes: the case of the South China Sea Islands. London; New York, Routledge, 1989. 212 p. (International politics in Asia series)

JX4084.P28 L8 1989

Based on the author's PhD. thesis at the London School of Economics and Political Science, 1986

Author's name transcribed as "Chi-kin Lo."

Macdonald, Douglas J.

Adventures in chaos: American intervention for reform in the Third World. Cambridge, Mass., Harvard University Press, 1992. 361 p. E744 .M215 1992

MacFarquhar, Emily.

On the defensive: as Washington dabates whether to get tough, China braces itself. U.S. news & world report, v. 110, May 27, 1991: 37-39, 42.

Examines the status of U.S. relations with China.

Malik, J. Mohan.

Chinese debate on military strategy: trends & portents. Journal of Northeast Asian studies, v. 9, summer 1990: 3-32.

"The 1980s witnessed an intense debate by China's strategic community over a military strategy in response to what Beijing sees as a shifting, but still complex and potentially troublesome, security environment. Though the debate is yet to conclude, the broad contours of the new doctrine have been sketched out . . . . Chinese analysts continue to warn against lowering armed guard at a time when the focus of the arms race is shifting to new frontiers: outer space and oceans."

Mancall, Mark.

China at the center: 300 years of foreign policy. New York, Free Press; London, Collier Macmillan, c1984. 540 p. (The Transformation of modern China series)
DS754.18 .M36 1984

Mann, Jim. Gerstenzang, James.

China gets chilly welcome back into world arena. Los Angeles times, Feb. 2, 1992: A3, A7.

"Chinese Premier Li Peng got a chilly and stiff reception at a United Nations summit Friday, but President Bush and other heads of government joined in ending the isolation many had imposed on the top Chinese leadership after the 1989 Beijing massacre."

Manning, Robert A.

Clinton and China: beyond human rights. Orbis, v. 38, spring 1994: 193-205.

"The Chinese are taking steps to meet minimum U.S. demands on human rights, thus allowing Clinton a way out of the corner his rhetoric put him in."

Starting over: from MFN to a China policy for the future. Washington, Progressive Policy Institute, 1994. 21 p. (Policy report no. 20, May 1994)

"Linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear proliferation, regional security, market-oriented economic ties and democratic change within China itself . . . . In the report, Manning proposes alternatives to the MFN lever, which he argues is 'simply too blunt an instrument' to define our relationship with the world's most populous nation."

Mansfield, Mike.

China: a quarter century after the founding of the People's Republic: a report by Senator Mike Mansfield, submitted to the Committee on Foreign Relations, U.S. Senate, January, 1975. Washington, G.P.O., 1975. 91 p. DS711 .M269

At head of title: 94th Congress, 1st session. Committee print.

"Journey to the New China, April-May, 1972, reports of Senator Mike Mansfield [and] Senator Hugh Scott."

China enters the post-Mao era. A report by Mike Mansfield to the Committee on Foreign Relations, U.S. Senate. Washington, G.P.O., 1976. 158 p. E183.8.C5 M32

At head of title: 94th Congress, 2d session. Committee print.

"Report number three."

Marshall, Patrick G.

U.S. policy in Asia: what role should America play in the post-Cold War era? CQ researcher, v. 2, Nov. 27, 1992: whole issue (p. 1025-1048).

Contents.--The issues.--Background.--Chronology.--Current situation.--Outlook.

Martin, Keith.

China and Central Asia: between seduction and suspicion. RFE/RL research report, v. 3, June 24, 1994: 26-36.

"Collapse of the Soviet Union has forced the newly independent states of Central Asia to evaluate their geopolitical environment carefully. While their relationship with China is important to them economically and politically, this relationship is also of immense importance to China, because of its security requirements . . . . The potential for greatly expanded trade between China and its Central Asian neighbors."

McCord, Edward Allen.

The power of the gun: the emergence of modern Chinese warlordism. Berkeley, University of California Press, c1993. 436 p. DS777.36 .M33 1993

McNaugher, Thomas L.

A strong China: is the United States ready? Brookings review, v. 12, fall 1994: 14-19.

"China's growth is already tweaking insecurities around East Asia. And while East Asians will try to cooperate in balancing and containing China's power, lingering suspicions and an underdeveloped regional security structure obstruct such alliances. Although China is years away from posing a serious direct military threat to the United States (assuming it wants to), the destabilizing effects of its growth could easily find their way to the U.S. doorstep."

MFN status, human rights, and U.S.-China relations. NBR analysis, v. 5, July 1994: whole issue (61 p.)

Partial contents.--The challenge of Sino-American relations, by Michel Oksenberg.--China and MFN, by Richard N. Cooper.--Human rights and the annual debate over MFN for China, by Dwight Perkins.--MFN denial: the economic consequences, by Nicholas R. Lardy.--Clinton's China card, by Robert B. Zoellick.--President Clinton's announcement, by Bill Clinton.--Beyond the President's decision on MFN: the need for a comprehensive policy toward China, by Harry Harding.--Memorandum to Congress: how to respond to the President's extension of MFN Status, by Merle Goldman.--To influence China, by David Bachman.

Min, Byung O. Nelson, Daniel N. Zhong, Yang.

Foreign policy pragmatism and domestic reform: linkages in the USSR and China. Journal of Asian and African affairs, v. 2, July 1990: 29-68.

"Through a comparison of Soviet and Chinese foreign policies towards the Third World, this study empirically examines "the changing emphases or priorities in these states' international relations and, . . . assess[es] the congruence of domestic socio-economic or political reforms with such new foreign policy directions."

Morris, Stephen J.

The Soviet Union and the Philippine communist movement. Communist and post-communist studies, v. 27, Mar. 1994: 77-93.

"Soviet policy towards the Philippine communist movement has passed through three distinct phases, each of which reflected its different triangular set of relations with the United States and China."

Moser, Michael J. Moser, Yeone Wei-chih.

Foreigners within the gates: the legations at Peking. Hong Kong; New York, Oxford University Press, 1993. 158 p. JX1838.A58 P456 1993

Mosher, Steven W.

New initiatives across the Taiwan straits. Global affairs, v. 8, spring 1993: 136-153.

"Geography, culture, and economic self-interest are inevitably drawing the People's Republic of China (PRC) on the mainland and the Republic of China (ROC) on Taiwan closer together. Over the long run, unification seems inevitable. But what economic and political form will such unification take--a loose custom's union, a federal system with the provinces retaining considerable authority, or a highly centralized regime? Even more importantly, whose politics will dominate a reunified China, Communist Beijing's or democratic Taipei's?"

Munro, Ross H.

Awakening dragon; the real danger in Asia is from China. Policy review, no. 62, fall 1992: 10-16.

"Recently, Chinese military power has been growing rapidly in both relative and absolute terms. With the collapse of the Soviet Union and the prevailing pacifist mood in Japan, China faces no serious regional threat for the first time in centuries. Indeed, no other East Asian country alone could conceivably confront China today. Nevertheless, Beijing has increased military spending by more than 50 percent since 1989."

Murthy, P. A. Narasimha.

Japan and China in the nineties: the bumpy road to consolidation of ties. China report, v. 27, Oct.-Dec. 1991: 275-297.

"It is nearly twenty years since Japan and China achieved reconciliation after an unfortunately long history of estrangement, hostility and conflict . . . . Their relations at present have only been partially consolidated."

Myers, Ramon Hawley.

Thoughts on U.S. foreign policy toward the People's Republic of China. Stanford, CA, Hoover Institution on War, Revolution, and Peace, Stanford University, 1994. 16 p. (Essays in public policy; no. 47) JX1428.C6 M94 1994

Nathan, Andrew J.
Human rights in Chinese foreign policy. China quarterly, no. 139, Sept. 1994: 623-643.

"Human rights are likely to remain a structural weakness for China's diplomacy . . . . In bilateral negotiations the human rights issue helped tip the balance towards Chinese concessions."

Nelsen, Harvey W.
Power and insecurity: Beijing, Moscow, and Washington, 1949-1988. Boulder, Colo., Lynne Rienner Publishers, 1989. 178 p. DK68.7.C5 N45 1989

Nguyen, Hung P.
Russia and China: the genesis of an Eastern Rapallo. Asian survey, v. 33, Mar. 1993: 285-301.

"The thesis of this article is fairly straightforward: Russian military policy toward China is likely to be a continuation of the move toward a Sino-Soviet strategic rapprochement that was started in earnest in 1990 . . . . The evidence and arguments supporting this thesis can be summarized as follows."

Norris, Robert S.
British, French, and Chinese nuclear forces: implications for arms control and nonproliferation. College Park, Md., Center for International and Security Studies at Maryland, 1994. 16 p.

"Although the geopolitical situation has changed drastically in recent years, none of the five acknowledged nuclear powers has decided to dismantle its nuclear arsenal . . . All five have decided that continued possession of nuclear weapons will remain a part of their security policies. In fact, in all five countries, modernization programs proceed."

North, Robert Carver.
The foreign relations of China. Belmont, Calif., Dickenson Pub. Co. [1969] 156 p. (Comparative foreign relations series) DS777.55 .N598 1969

Oksenberg, Michel.
The China problem. Foreign affairs, v. 70, summer 1991: 1-16.

"Sino-American relations are in disarray. China's current leaders complain of continued American sanctions, the Bush administration's refusal to engage in high-level official exchanges and the deterioration in the quality of consultations on matters of common strategic interest."

O'Leary, Greg.
The shaping of Chinese foreign policy. London, Croom Helm, c1980. 302 p. JX1570 .O43x 1980b

The Overseas Chinese: a driving force. Economist, v. 324, July 18, 1992: 21-22, 24.

"The 55m overseas Chinese are one of the world's great economic engines. They will become greater still as they pull forward China itself."

Pi, Ying-hsien.
China's boundary issues with the former Soviet Union. Issues and studies, v. 28, July 1992: 63-75.

"The Sino-Russian border was a product of Tsarist Russian expansion . . . . Border tension, which was sustained for more than two decades, finally subsided after Mikhail Gorbachev's Vladivostok speech in July 1986. Thereafter, the two sides held five rounds of talks and signed a treaty on the eastern most section of the border which was endorsed by the Russian Federation after the disintegration of the Soviet Union."

Powell, Bill.
The coming power struggle. Newsweek, v. 122, Nov. 22, 1993: 40-41.

Discusses tensions between Japan and China and considers the U.S. role in the relationship between these two countries.

Precarious balance: Hong Kong between China and Britain, 1842-1992. Edited by Ming K. Chan and John D. Young. Armonk, N.Y., M.E. Sharpe, c1994. 235 p. (Hong Kong becoming China; vol. 4) DS796.H757 P74 1994

Reluctant adversaries: Canada and the People's Republic of China, 1949-1970. Edited by Paul M. Evans and B. Michael Frolic. Toronto; Buffalo, University of Toronto Press, c1991. 268 p. F1029.5.C6 R45 1991

Ritcheson, Philip L.

China's impact on Southeast Asian security. Military review, v. 74, May 1994: 44-57.

"Chinese acquisition and modernization strategies have as a common goal high-tech forces capable of power projection . . . . Chinese have recognized for several years that short but intense wars over disputed territorial seas and islands will most likely involve the Chinese military in the future."

Roberti, Mark.

The fall of Hong Kong: China's triumph and Britain's betrayal. New York, J. Wiley, c1994. 336 p. DS796.H757 R628 1994

Robinson, Thomas W.

U.S. policy toward China. American enterprise, v. 4, Mar.-Apr. 1993: 42-51.

Historically, (the U.S.-China) relationship has had commercial, security, and moral components . . . . The content of the three aspects of American policy toward China has varied, but attitudes toward China have always expressed themselves in terms of developments within, and interaction between, these three components."

Ross, Robert S.

China learns to compromise: change in U.S.-China relations, 1982-1984. China quarterly, no. 128, Dec. 1991: 742-773.

"U.S.-China relations experienced significant change during the Reagan administration. In contrast to the 1970s, when China criticized American 'appeasement' of the Soviet Union and U.S.-Taiwan diplomatic relations, and to the early Reagan years, when China threatened to downgrade relations over American arms sales to Taiwan and badgered Washington on a host of lesser issues, relations were remarkably free from challenges to a developing and expanding relationship from late 1983 until the June 1989 massacre."

Schaller, Michael.

The United States and China in the twentieth century. 2nd ed. New York, Oxford University Press, 1990. 247 p. E183.8.C5 S323 1990

Schwendinger, Robert J.

Ocean of bitter dreams: maritime relations between China and the United States, 1850-1915. Tucson, Ariz., Westernlore Press, 1988. 265 p. HF1604.Z4 U67 1988

Seagrave, Sterling.

Lords of the Rim: the invisible empire of the overseas Chinese. New York, Putnam, c1995.

This work will be available later in 1995.

Segal, Gerald.

China changes shape: regionalism and foreign policy. London, Brassey's, 1994. 72 p. (Adelphi paper 287)

Contents.--Internal forces for change.--The new interdependence.--China changes shape.

Shaffer, Bretigne.

Beijing, the West, and the approaching sack of Hong Kong. Orbis, v. 35, summer 1991: 327-343.

"Respect for Hong Kong's autonomy is not going to emerge spontaneously from Beijing . . . . Only a populace prepared to speak out, backed by support from the international community, can hope to avert the approaching sack of Hong Kong."

Shambaugh, David.

Growing strong: China's challenge to Asian security. Survival, v. 36, summer 1994: 43-59.

"How serious is the Chinese military build-up? Does it present a threat to Asian security? . . . This article examines traditional Chinese perspectives on national security, Beijing's current strategic environment and threat perceptions, and the PLA's evolving defense posture."

Shao, Wenguang.
China's relations with the super-powers: strategic shifts and implications. Survival, v. 32, Mar.-Apr. 1990: 157-172.

"This article examines a number of policy issues in China's relations with the US and the USSR. The key questions are . . . the American sanctions imposed on China . . . the Sino-Soviet rapprochement."

Shih, Chih-yu.
China's just world: the morality of Chinese foreign policy. Boulder, Colo., Lynn Rienner Publishers, c1993. 244 p. JX1570 .Z5 1992

The spirit of Chinese foreign policy: a psychocultural view. Houndmills, Basingstoke, Hampshire, Macmillan, 1990. 231 p. JX1570 .S45 1990b

Smith, Esmond D., Jr.
China's aspirations in the Spratly Islands. Contemporary Southeast Asia, v. 16, Dec. 1994: 274-294.

"The territorial dispute over the Spratly Island archipelago threatens to disrupt an era of unprecedented peace in Southeast Asia. Strategic position, on the one hand, and development rights to the offshore resources are the real stakes in this dispute. And China appears to be headed for open conflict with Vietnam over offshore development rights in nearby waters."

Solomon, Richard H.
The China factor in America's foreign relations: perceptions and policy choices. Santa Monica, Calif., Rand Corp. [1981] 65 p. (The Rand paper series; P-6590) AS36 .R28 no. 6590

The South China Sea territorial disputes. American Asian review, v. 12, fall 1994: whole issue (209 p.)

Partial contents.--"Dangerous shoals": an introduction to the South China Sea disputes, by Eric Hyer.--China's changing policies toward the South China Sea, by Shee Poon Kim.--Fishing in troubled waters:? Chinese strategic considerations in the South China Sea, by Lee Ngok.--The South China Sea problem: some future scenarios, by Justus M. van der Kroef.

Spence, Jonathan D. Cohen, Paul A. Levine, Steven I.
The historical precedents for our new relations with China. Washington, East Asia Program, Wilson Center, [1980?] 32 p. (Occasional paper (Woodrow Wilson International Center for Scholars. East Asia Program); no. 7.) E183.8.C5 S64 1980

State of the world 1995: a Worldwatch Institute report on progress toward a sustainable society. New York, W. W. Norton & Co., 1995. 255 p.

Partial contents.--Nature's limits, by Lester R. Brown.--Protecting oceanic fisheries and jobs, by Peter Weber.--Sustaining mountain peoples and environments, by Derek Denniston.--Harnessing the sun and the wind, by Christopher Flavin.--Creating a sustainable materials economy, by John E. Young and Aaron Sachs.--Making better buildings, by Nicholas Lenssen and David Malin Roodman.--Facing China's limits, by Megan Ryan and Christopher Flavin.--Leaving home, by Hal Kane.--Budgeting for disarmament, by Michael Renner.--Forging a new global partnership, by Hilary F. French.

Strategic developments in the Asia-Pacific. Contemporary Southeast Asia, v. 13, June 1991: whole issue (117 p.)

Partial contents.--Changing global trends and their effects in the Asia-Pacific, by Chin Kin wah.--Domestic changes in China since the 4 June incident and their implications for Southeast Asia, by Lee Lai To.

Sullivan, Roger W.
Discarding the China card. Foreign policy, no. 86, spring 1992: 3-23.

"In the current debate over China policy, there is one point of general agreement: The pre-Tiananmen bipartisan consensus is gone . . . . If U.S. policy toward China is to be rebuilt around a new consensus, Americans must first understand why the old consensus fell apart. The reason was not Tiananmen Square but that the world had changed. Reform in the Soviet Union and radical changes in Eastern Europe made many Americans question China's supposed strategic importance to the United States."

Sutter, Robert G.

The China quandary: domestic determinants of U.S. China policy, 1972-1982. Boulder, Colo., Westview Press, 1983. 194 p. (Westview special studies in international relations) E183.8.C5 S878 1983

Chinese foreign policy after the cultural revolution, 1966-1977. Boulder, Colo., Westview Press, 1978. 176 p. (Westview special studies on China and East Asia) DS777.55 .S88

Chinese foreign policy: developments after Mao. New York, Praeger, 1986. 240 p. DS779.27 .S87 1986

"Praeger special studies. Praeger scientific."

East Asia and the Pacific: challenges for U.S. policy. With a contribution by Larry Niksch. Boulder. Colo., Westview Press, 1992. 182 p. DS518.8 .S88 1992

Executive-legislative consultations on China policy, 1978-79. Washington, G.P.O., 1980. 42 p. (Congress and foreign policy series; no. 1) JX1428.C6 S97

At head of title: Foreign Affairs Committee print.

Prepared by the Congressional Research Service for the Subcommittee on Europe and the Middle East of the House Committee on Foreign Affairs.

Sun, Baoye. Li, Bingtian. Sun, Chunying.

China: report on drug, weapons seizures in southwest border region. JPRS report (Narcotics), Feb. 7, 1994: 19-21.

Translation of an article originally appearing in the Beijing journal Fazhi Ribao, Jan. 16, 1994.

Taiwan: the outsider. Economist, v. 332, July 2, 1994: 17-19.

"Constitutional reforms will soon give Taiwan the political structure of an independent democratic country. A provocation to China, perhaps; a good example, certainly."

Tan, Qingshan.

The making of U.S. China policy: from normalization to the post-cold war era. Boulder, Colo., Lynne Rienner Publishers, 1992. 179 p. E183.8.C5 T286 1992

Tse, Ada Koon Hang.

The emerging legal framework for regulating economic relations between Taiwan and the mainland. Journal of Chinese law, v. 6, fall 1992: 137-178.

Article examines Taiwan's 1992 Statute Governing Relations Between People of the Areas of Taiwan and Mainland China. "Recommends that the Statute be examined in the context of the long-term security, stability and welfare of Taiwan and points out additional ways to achieve a more principled and democratic model."

Turack, Daniel C.

China's human rights record since Tiananmen 1989 and the recent mixed response of the United States. Political geography, v. 13, Jan. 1994: 507-527.

"In this article, the approach will be to look at a number of areas of concern which Congress links with human rights and at the Bush administration's articulated rationale behind its decision to treat human rights as only one factor in our overall China policy, thereby affecting a positive influence on the PRC's human rights policy."

U.S. Congress. House. Committee on Foreign Affairs.

United States policy toward China. Hearing, 101st Congress, 2nd session. Feb. 8, 1990. Washington, G.P.O., 1990. 93 p.

U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on Asian and Pacific Affairs.

United States political and economic policy toward China. Hearing before the Subcommittees on Asian and Pacific Affairs and International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, 101st Congress, 1st session. Dec. 13, 1989. Washington, G.P.O., 1990. 62 p.

The wave of protest in the People's Republic of China. Hearing, 101st Congress, 1st session, May 4, 1989. Washington, G.P.O., 1990. 47 p. KF27 .F638 1989i
Distributed to some depository libraries in microfiche.

U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on Human Rights and International Organizations.
Human rights and political developments in China. Hearings before the Subcommittees on Human Rights and International Organizations, on Asian and Pacific Affairs, and on International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, 101st Congress, 1st session. July 13 and 19, 1989. Washington, G.P.O., 1990. 327 p.

U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on International Operations.
The role of the United States Embassy and the Voice of America in the recent China uprising. Hearing, 101st Congress, 1st session. June 15, 1989. Washington, G.P.O., 1989. 104 p.
"To examine and evaluate the role of the U.S. Embassy, not only in assuming and insuring its own safety and that of its personnel, but also the effectiveness with which it protected and safeguarded the lives and property of other U.S. citizens in China."

U.S. Congress. House. Committee on the Judiciary. Subcommittee on Immigration, Refugees, and International Law.
Immigration status of Chinese nationals currently in the United States. Hearing, 101st Congress, 1st session on H.R. 2929, H.R. 2712, H.R. 2722, and H.R. 2726. July 20, 1989. Washington, G.P.O., 1989. 253 p.
"Serial no. 17"

U.S. Congress. House. Committee on Ways and Means.
Foreign policy of the People's Republic of China; report to accompany H. Con. Res. 174 . . . including cost estimate of the Congressional Budget Office. [Washington, G.P.O.] 1991. 4 p. (Report, House, 102nd Congress, 1st session, no. 102-142, part 1)

U.S. Congress. Senate. Committee on Commerce, Science, and Transportation.
S. Res. 117 and S. Res. 124, prohibition of the Olympic games in Beijing. Hearing, 103d Congress, 1st session. July 15, 1993. Washington, G.P.O., 1995. 45 p. (Hearing, Senate, 103d Congress, 1st session, S. Hrg. 103-955)
"It is difficult to talk about the city of Beijing without remembering the fates of the many students who protested in Tiananmen Square during the summer of 1989. The students who came to the square to peacefully advocate for democracy and freedom were deliberately massacred. It is a disturbing thought that the prospective location for the opening ceremonies of these games, if they were to be held in Beijing, would be in the Great Hall of the People, Tiananmen Square, the very spot where these courageous students gave their lives for the sake of democracy."

U.S. Congress. Senate. Committee on Foreign Relations.
The Radio Free China Act, S. 2985. Hearing, 102nd Congress, 2nd session. Sept. 15, 1992. Washington, G.P.O., 1992. 58 p. (Hearing, Senate, 102nd Congress, 2nd session, S. Hrg. 102-883)

U.S. and Chinese policies toward occupied Tibet. Hearing, 102nd Congress, 2nd session. July 28, 1992. Washington, G.P.O., 1993. 56 p. (Hearing, Senate, 102nd Congress, 2nd session, S. Hrg. 102-969)
"Since the Chinese invasion of Tibet in 1950 and the Tibetan uprising in 1959, so ruthlessly suppressed Tibetans everywhere have kept alive the hope of someday once again being free . . . . American policy, unfortunately, has not been as true to the Tibetans. Once having supported Tibetan independence, State Department officials now say that Tibet is part of China."

U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on East Asian and Pacific Affairs.
U.S. policy toward China. Hearing, 103d Congress, 2nd session. May 4, 1993. Washington, G.P.O., 1994. 94 p. (Hearing, Senate, 103d Congress, 2nd session, S. Hrg. 103-723)

"The current state of Sino-U.S. relations and the stakes involved in upcoming decisions, especially the question of whether to continue to extend most-favored-nation [MFN] trading status to China when the Executive order expires on June 3."

Sino-American relations: current policy issues. Hearings, 102nd Congress, 1st session. June 13-27, 1991. Washington, G.P.O., 1991. 141 p. (Hearing, Senate, 102nd Congress, 1st session, S. Hrg. 102-241)

U.S. policy toward China. Hearing, 103rd Congress, 2nd session, May 4, 1994. Washington, G.P.O., 1994. 94 p. (U.S. Congress. Senate. S. hrg.; 103-723.)
KF26 .F6354 1994

U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on European Affairs.
Broadcasting to China: applying the lessons from European freedom radios. Hearing before the Subcommittees on European Affairs and East Asian and Pacific Affairs of the Committee on Foreign Relations, U.S. Senate. Nov. 21, 1991. Washington, G.P.O., 1992. 40 p. (Hearing, Senate, 102nd Congress, 1st session, S. Hrg. 102-364)

U.S. Congress. Senate. Committee on the Judiciary.
The new heroin corridor: drug trafficking in China. Joint hearing before the Committee on the Judiciary and the Caucus on International Narcotics Control of the U.S. Senate, 102nd Congress, 2nd session on examining the drug trafficking situation in the People's Republic of China, focusing on drug control efforts between the United States and China. May 19, 1992. Washington, G.P.O., 1993. 63 p. (Hearing, Senate, 102nd Congress, 2nd session, S. Hrg. 102-1109)
"Serial no. J-102-66"

U.S. Congress. Senate. Committee on the Judiciary. Subcommittee on Immigration and Refugee Affairs.
Chinese students in America and human rights in China. Hearing, 101st Congress, 2nd session on H.R. 2712. Jan. 23, 1990. Washington, G.P.O., 1991. 192 p. (Hearing, Senate, 101st Congress, 2nd session, S. Hrg. 101-1270)
"Serial no. J-101-56"
"The purpose of our session today is to hear from some of the courageous Chinese students--to learn of their oppression which they are now experiencing at the hand of their own government's officials, and to hear their views on the current state of the prodemocracy movements in China."

U.S. Dept. of Defense. Office of International Security Affairs. Washington, The Dept., 1995. 32 p.
Reaffirms the U.S. commitment to "maintain a stable forward presence in the region, at the existing level of about 100,000 troops, for the foreseeable future."

Van Ness, Peter.
China as a third world state: foreign policy and official national identity. Canberra, Research School of Pacific Studies, Australian National University [1991] 23 p. (Working paper (Australian National University. Dept. of International Relations); no. 1991/5.)
DS779.27 .V36 1991

Walsh, J. Richard.
China and the new geopolitics of Central Asia. Asian survey, v. 33, Mar. 1993: 272-284.
"The collapse of the Communist Party of the Soviet Union (CPSU) . . . heightened the ideological isolation of China; in addition, a new set of nations with transnational ethnic ties now bordered China's northwestern autonomous regions and provinces, which are areas of continual ethnic unrest."

Change, continuity, and commitment: China's adaptive foreign policy. Lanham, MD, University Press of America, c1988. 174 p.
DS777.8 .W24 1988

Wang, Gungwu.

Community and nation: China, Southeast Asia, and Australia. Kensington, Australia, Asian Studies Association of Australia in association with Allen & Unwin, 1992. 359 p. (Southeast Asia publications series; no. 23) DS523.4.C45 W35 1992
Aus92-ANB OCT92

Greater China and the Chinese overseas. China quarterly, no. 136, Dec. 1993: 926-948.

"China's historical record has left most Chinese overseas cautious about close direct involvement with its internal affairs . . . . They have nothing to gain and everything to lose if the integration of Greater China fails."

Wenzhao, Tao.

U.S. policy toward China and the question of recognition in 1949-1950. Social sciences in China, no. 4, 1994: 138-146.

"This article expounds the U.S. China policy in the critical period from the end of 1948 to 1950, by analyzing the position of the United States on the recognition of the new power of the people in China."

Whiting, Allen S.

China's foreign relations. Annals of the American Academy of Political and Social Science, v. 519, Jan. 1992: whole issue (238 p.)

Contents.--China's American dilemma, by Harry Harding.--Second-chance in China: Sino-Soviet relations in the 1990s, by Steven I. Levin.--China and Japan: politics versus economics, by Allen S. Whiting.--China and post-Cambodia Southeast Asia: coping with success, by Robert S. Ross.--China and South Asia, by John W. Garver.--China and the Middle East since Tiananmen, by Yitzhak Shichor.--China and Europe, by David Shambaugh.--China and Africa, by Gerald Segal.--China's relations with Hong Kong and Taiwan, by Parris H. Chang.--International organizations in Chinese foreign policy, by Samuel S. Kim.--Domestic factors of Chinese foreign policy: from vertical to horizontal authoritarianism, by Zhao Quansheng.--China's foreign economic relations, by Guocang Huan.--Chinese military strategy revised: local and limited war, by Paul H. B. Godwin.

Wilborn, Thomas L.

Security cooperation with China: analysis and a proposal. U.S. Army War College, Strategic Studies Institute, 1994. 32 p.

"The author examines U.S. China security cooperation before June 4, 1989, when People's Liberation Army (PLA) units indiscriminately fired at unarmed demonstrators and their supporters at Tianamen Square . . . . Security cooperation and military-to-military relations are highly desirable in the strategic environment of the 1990s. China is a major regional power which inevitably will affect U.S. security interests."

Wilhelm, Alfred D., Jr.

The Chinese at the negotiating table. Washington, National Defense University Press, for sale by the Supt. of Docs., G.P.O., 1994. 281 p.

Partial contents.--A construct for negotiations.--The Chinese diplomat: messenger, negotiator, or mediator?--Case I: Panmunjom.--Case II: Geneva and Warsaw.--Negotiation as an art.

Williams, Richard L.

U.S. response to changes in China. Washington, U.S. Dept. of State, Bureau of Public Affairs, 1989. 3 p. (Current policy no. 1195)

Presents "statements by Richard L. Williams, Acting Deputy Assistant Secretary [of State] for East Asian and Pacific Affairs, before the Subcommittees on Human Rights and International Organizations, Asian and Pacific Affairs, and International Economic Policy and Trade of the House Foreign Affairs Committee on July 13 1989, and the Subcommittee on Immigration, Refugees, and International Law of the House Judicary Committee on July 20, in Washington, D.C." Discusses U.S. policy regarding Chinese students in the U.S., economic and commercial relations, and strategic issues.

Willkie, Wendell L.

Why does MFN dominate America's China policy? Washington, Heritage Foundation, 1994. 7 p. (Heritage lectures no. 486)

"The most important issue today in the U.S.-China relationship . . . is the linkage of MFN to specific human rights conditions. But what is MFN? And how did it come to dominate America's policy toward the world's most populous country?"

Wilson, Ian

Power, the gun and foreign policy in China since the Tiananmen incident. Canberra, Strategic and Defence Studies Centre, Australian National University, 1991. 22 p. (Working paper no. 232)

"The orientation of Chinese foreign policy remains towards creating a stable and peaceful environment for domestic economic development. This is in keeping with China's reduced influence in world affairs with the collapse of the East Asian Triangle . . . depriving China of its balancing role."

Womack, Brantly.

China and Vietnam: peace at last? World today, v. 47, Oct. 1991: 164-166.

"Normalisation between China and Vietnam is likely to be stormy, marked by various political and economic micro-crises. In the transition period, the most likely points of tension will be continuing disputes and suspicions concerning Cambodia and territorial disputes. Although it is impossible at this point to imagine the future politics of Cambodia, it is predictable that China and Vietnam will be suspicious of each other's activities there."

Xiaowei, Zhao.

The threat of a new arms race dominates Asian geopolitics. Global affairs, v. 7, summer 1992: 29-40.

Since the collapse of the Soviet Union the focus has shifted on the military buildup of the Far East.

Xiaoxing, Han.

Sino-Israeli relations. Journal of Palestine studies, v. 22, winter 1993: 62-77.

"Sino-Israeli normalization has been widely interpreted as the price China has chosen to pay to gain admission to the peace conference. It is true that Beijing has engaged in intensive international lobbying to obtain that right in the aftermath of the Gulf crisis, insisting in mid-1991 that the Middle East conflict could be successfully solved 'only' through an international conference under UN auspices with the participation of all the five permanent members of the UN Security Council. But attributing China's decision to normalize Sino-Israeli relations primarily to its desire to participate in the peace conference ignores the strategic dimension."

Xu, Wenyuan.

Promotion of Sino-Latin American economic and trade relations: retrospects and prospects. Foreign affairs journal, no. 29, Sept. 19933: 48-55.

"China has a long history of trade relations with the Latin American countries . . . . However, the current scale of trade exchanges and economic cooperations is not commensurate with the size of their respective territories, populations, natural resources, market scales and economic development levels. In this sense, the bilateral economic and trade relations are still at an initial stage. But there exist great potential and broad prospects for their further development and expansion."

Xu, Zhixian.

Sino-Japanese relations continue enhanced. Beijing review, v. 35, Oct. 12-18, 1992: 19-21.

"In general, in the 1990s Sino-Japanese relations will exert a new influence not only on the Asia-Pacific region but on the whole world. Sino-Japanese relations face favorable prospects; their co-operation will deepen and expand with time."

Yao, Jianguo.

Yunnan: China's anti-drug outpost. Beijing review, v. 34, Aug. 26-Sept. 1, 1991: 16-21.

"Drug-related crime that had been wiped out in the early 1950s has made its comeback in Yunnan due to the infiltration of the neighbouring Golden Triangle drug production base. It has caused great suffering to Yunnan and the repercussions have begun to spread across the country. The comprehensive measures taken by the province in dealing with this social problem that has endangered the modernization programme demonstrate China's stand on the fight against drugs."

Yahuda, Michael.
The foreign relations of Greater China. China quarterly, no. 136, Dec. 1993: 687-710.
Concludes that the "modalities of Greater China are driven by informal rather than formal institutions." Argues that the economic trends toward integration are not matched by political trends. Concludes that the "the foreign relations of Greater China point to a new capacity of Taiwan to accentuate its separateness from the mainland short of a formal declaration of independence."

Yang, Jiemian.
Sino-US relations: problems and solutions. American Asian review, v. 10, spring 1992: 62-71.
"Relations between the two countries came to focus on the three major issues of trade policies, human rights and arms sales."

Yi, Xiaoxiong.
China's U.S. policy conundrum in the 1990s: balancing autonomy and interdependence. Asian survey, v. 34, Aug. 1994: 675-691.
"The fundamental challenge to China's American policy in the post-Cold War era is to find strategies compatible with maintaining China's political system, national independence, and status aspirations while at the same time achieving the economic and defense modernization attainable only through international exchanges, including those with the United States."

Yin, Jason Z. Yen, Charles C.
An assessment of the economic relations between Taiwan and Mainland China. American Asian review, v. 10, winter 1992: 53-78.
"This paper consists of five parts: the first part is an introduction; the second part reviews the economic ties developed over the last decade; the third part analyzes the structure of the trade and investment; the fourth part examines the degree of mutual economic dependency; and the fifth part concludes with a discussion of the future prospects and policy recommendations for the two governments in question."

Yu, Bin.
Sino-Russian military relations: implications for Asian-Pacific security. Asian survey, v. 33, Mar. 1993: 302-316.
"This article tries to establish a contextual and analytical framework in which to piece together missing pieces, speculate on the future, and assess the implications of the newly developed military ties between Beijing and Moscow."

Yu, Peter Kien-Hong.
On Taipei's rejoining the Asian Development Bank (ADB) subsequent to Beijing's entry: one country, two seats? Asian affairs, v. 17, spring 1990: 3-13.
Focuses on events that led up to the meeting of delegates of both Chinas at the Asian Development Bank in April 1988. Also discusses "Taiwan's presence at the ADB meeting in Beijing in May 1989 that broke a forty-year ban on travel by ROC officials to the communist-controlled mainland."

Yuanlun, Qiu.
Sino-German economic relations: scaling new heights. Foreign affairs journal, no. 29, Sept. 1993: 26-37.
"The People's Republic of China and the Federal Republic of Germany were both founded in 1949. During the past 40-odd years, significant progress and noticeable achievements have been registered in their bilateral relations, especially in economic relations." The article discusses these relations.

Yufan, Hao. Zhihai, Zhai.
China's decision to enter the Korean War: history revisited. China quarterly, no. 121, Mar. 1990: 94-115.
"The purpose of this article is to try to explain from a Chinese perspective the motivation of China's leaders in making such a momentous decision, as revealed by Chinese sources recently released in China."

Zhai, Qiang.
The dragon, the lion & the eagle: Chinese-British-American relations, 1949-1958. Kent, Ohio, Kent State University Press, c1994. 284 p. (American diplomatic history)
E183.8.C5 Z42 1994

Revision of doctoral thesis--Ohio University, 1991.

Zhang, Xujin. Ma, Yongmei.
China: article reports Yunnan antinarcotics drive. JPRS report (Narcotics), July 16, 1991: 1-4.
Translation of an article originally appearing in the Beijing newspaper Renmin Gongan Bao, June 21, 1991.

Zhang, Yongjin.
China's entry into international society: beyond the standard of 'civilization'. Review of international studies, v. 17, Jan. 1991: 3-16.
"This essay joins the debate on when and how China--the Middle Kingdom reclusive in the 'Far East' up to the middle of the nineteenth century--entered international society."

Ziegler, Charles E.
Soviet strategies for development: East Asia and the Pacific Basin. Pacific affairs, v. 63, winter 1990-91: 451-468.
"This study suggests that five years of attempts to link Soviet economic development to the dynamic Asian regional economy have yielded at best mixed results. A grandiose development scheme for Siberia and the Soviet Far East has given new impetus to improving ties to Asia, but disorganization and controversy have plagued the program."

2. RESOLVED: THAT THE UNITED STATES SHOULD SUBSTANTIALLY CHANGE ITS ECONOMIC POLICY TOWARD THE PEOPLE'S REPUBLIC OF CHINA.

Adie, Ian W.A.C.
China and the 'springtime of nations': next steps? International relations, v. 11, Aug. 1993: 435-449.
"China is changing, so is the whole world. The 12 per cent economic growth rate China registered last year was caused by the 1.2 billion people's huge consumption and investment demand as they moved towards a relatively comfortable lifestyle. This was largely because China opened to the world market in the 1980s."

Agriculture and trade in China and India: policies and performance since 1950; executive summary. San Francisco, International Center for Economic Growth, 1994. 17 p.

Ai, Wei.
Economic and trade relations between the United States and mainland China in the past decade. Issues & studies, v. 26, Apr. 1990: 63-82.
Reviews the development of trade and investment ties with China since 1979, claiming that the current strained relations are unlikely to change in the near future.

America's China trade in historical perspective: the Chinese and American performance. Edited by Ernest R. May and John K. Fairbank. Cambridge, Mass., Committee on American-East Asian Relations of the Dept. of History in collaboration with the Council on East Asian Studies, Harvard University; Distributed by Harvard University Press, 1986. 388 p. (Harvard studies in American-East Asian relations; 11)
HF3128 .A62 1986

Appleton, Jack. Sun, Bruce.
A theory of Chinese middle management. Journal of contemporary China, spring 1994: 78-87.
Examines aspects of traditional Chinese culture which bear on economic success and organizational behavior. Discusses the paternalistic orientation of Chinese culture, the prevalence of kinship employment, and the organization of work groups.

Archer, Shirley J.
The role of administrative agencies in regulating joint ventures in China. Stanford journal of international law, v. 21, spring 1985: 195-218.
The article "examines the procedural stages of carrying out a joint venture enterprise with the People's Republic of China: negotiations and apprval; operations; and termination and dispute settlement."

Armstrong, Wil.
The development of commercial law for foreign investment in China. Houston journal of international law, v. 12, fall 1989: 55-75.
Comment surveys the laws and regulations governing foreign investments in China. Despite the open door policy announced in 1978, "China clearly continues to be a communist nation with a predominant role for state planning in the economy."

Arnold, Walter.
Political and economic influences in Japan's relations with China since 1978. Millennium, v. 18, winter 1989: 415-434.
"This article will analyse Sino-Japanese relations largely from a 'dependency' perspective. It will attempt to determine the extent to which political factors have influenced Sino-Japanese economic relations by applying Albert O. Hirschman's theory of the economic 'influence effect' to Sino-Japanese trade, investment and foreign aid."

Ash, Robert F.
The agricultural sector in China: performance and policy dilemmas during the 1990s. China quarterly, v. 131, Sept. 1992: 545-576.
Examines proposed agricultural strategy for the 1990s, including capital investments, the integration of decentralized, household-based farming with a

collectively-organized socialized service system, agricultural production targets according to the national economic and social development plans, land constraints, and projected changes in cultivated area distribution.

Asia in the twenty-first century: JILP annual symposium. New York University journal of international law and politics, v. 24, spring 1992: whole issue (1057-1286 p.)

Baark, Erik.

Commercialized technology transfer in China 1981-86: the impact of science and technology policy reforms. China quarterly, no. 111, Sept. 1987: 390-406.

Computer software and biotechnology in the PRC: analytical perspective on high-tech politics. Issues & studies, v. 27, Sept. 1991: 70-93.

"The leadership of the People's Republic of China has sought to meet the challenge of high-tech through reform of research and development policies. In order to analyze how these reform policies were conceived and the problems they have encountered during the 1980s, this paper proposes to look at the tensions which emerged between three S&T policy cultures: bureaucratic, entrepreneurial, and academic. Against this conceptual background, the cases of Chinese attempts to promote computer software and biotechnology are discussed in more detail."

Bachman, David M.

Bureaucracy, economy, and leadership in China: the institutional origins of the great leap forward. Cambridge; New York, Cambridge University Press, 1991. 262 p.
JQ1508 .B28 1991

Baldinger, Pamela.

The birth of Greater China. China business review, v. 19, May-June 1992: 13-15, 17-20, 22.

"The economic links among China, Hong Kong, and Taiwan are growing at a stunning pace, and promise to eventually weave the three societies into a single economic entity--'Greater China' . . . . US businesses and policymakers must also begin to adjust their thinking, as they can no longer look at any of the three constituent pieces of Greater China without also considering the growing links between them." Includes accompanying article by Harry Harding (The US and Greater China).

Barnathan, Joyce.

China: is prosperity creating a freer society? Business week, no. 3375, June 6, 1994: 94, 96-99, 102.

Argues that "economic reform and years of double-digit growth have begun to transform China's political and social life, loosening Beijing's iron grip on the country's 1.2 billion citizens. As a result, the glimmerings of a freer society have become visible, despite attempts by the Communist Party leadership to repress political dissent." Includes related article, "Clinton's U-turn won't mean China gets a free ride."

Barnathan, Joyce. Engardio, Pete.

China: the emerging economic powerhouse of the 21st century. Business week, no. 3319, May 17, 1993: 54-60, 64, 68-69.

"Breathtaking changes are sweeping through the giant nation that will be the economic powerhouse of the 21st century. Bloated, inefficient industries controlled by the authorities in Beijing are being allowed to wither away, and enterprises run by local governments are taking their places. China, with a quarter of the world's population, is in a mad rush toward prosperity--and there seems to be no stopping the momentum."

Includes a commentary by Amy Borrus entitled "The best way to change China is from the inside", concerning human rights and granting MNF status to China.

Barnes, Denny.

Cantonese consumer stampede. China business review, v. 19, Nov.-Dec. 1992: 28-31, 34-35.

"China's Guangdong Province's 63 million eager buyers are igniting China's consumer boom. Guangdong residents can't seem to get their hands on enough foreign products."

Barru, Steve.
Pumping profits out of China. China business review, v. 19, May-June 1992: 44-47.
"New York-based Goulds Pumps Inc. came to China with a modest proposition; it wanted to invest in a joint venture that would use basic equipment to manufacture a standard product. With a limited transfer of technology and equity, Goulds established a venture that relies solely upon domestic inputs to manufacture a low-cost product competitive in international markets. The company now has a profitable venture and a growing presence in China."

The Basic law and Hong Kong's future. Edited by Peter Wesley-Smith and Albert H.Y. Chen. Hong Kong, Butterworths, 1988. 389 p.

Bath, Vivienne.
Introducing the "limited company". China business review, v. 20, Jan.-Feb. 1993: 50-54.
Describes a new type of entity (companies limited by shares) created by China to attract foreign investors. "A company limited by shares (a limited company) is an enterprise with legal-person status that raises capital through the issue of shares of equal value."

Bell, Michael. N'guiamba, Simon.
China's open economic zones are speeding its transformation to a market economy. IMF survey, v. 22, Apr. 19, 1993: 114-117.
"Michael Bell and Simon N'guiamba of the IMF Central Asia Department describe the various forms of open economic zones in China, their performance, and their impact on the Chinese economy in recent years."

Berkley, Gerald W.
China as a member of the GATT: historical and contemporary issues. Asian profile, v. 20, Aug. 1992: 269-280.
Considerations for China's membership in the GATT "include whether China's socialist economy can be adapted to a trading regime that is rooted in market economy principles; whether the precedents set by other socialist nations already in the GATT will provide any guidance in the processing of China's application; and whether United States's concerns over the PRC's membership in the GATT are sufficient to serve as a major impediment to China's application."

Berkowitz, Bruce D.
Energizing the space launch industry. Issues in science and technology, v. 6, winter 1989-90: 77-83.
Warns that even though the U.S. commercial launch industry is a vital high technology industry on which future U.S. scientific and military objectives will depend, it is losing its market share to Arianespace, China and Japan.

Bersani, Matthew D.
Enforcement of arbitration awards in China: foreigners find the system sorely lacking. China business review, v. 19, May-June 1992: 6-10.
Notes that despite the establishment of the China International Economic and Trade Arbitration Commission, which now handles almost all arbitration arising out of disputes between Chinese and foreign parties, there appear to be problems in getting regional courts to enforce awards against local economic enterprises.

Beyond MFN: trade with China and American interests. Edited by James R. Lilley and Wendell L. Willkie II. Washington, AEI Press, 1994. 171 p. HF1456.5.C6 B49 1994

Bin, Ma. Huang, Xiaohu. Zhou, Tianyong.
Comments on Su Xing's economic ideas. Social sciences in China, v. 15, autumn 1994: 5-32.
Summarizes recent research on socialist market economies put forth by Su Xing. Accompanying articles offer similar profiles of economists Zhou Jiong and Li Yining.

Bitzinger, Richard A.
Arms to go: Chinese arms sales to the Third World. International security, v. 17, fall 1992: 84-111.
"The People's Republic of China is far and away the largest exporter of military equipment in the developing world . . . . This article examines recent Chinese arms transfers to the Third World and discusses the impact of these weapon systems on

regional security developments . . . . The second part of this article analyzes Chinese arms modernization efforts and their prospects for reaching full-scale production."

Chinese arms production and sales to the Third World. Santa Monica, Rand Corporation, 1991. 46 p. (Rand note N-3334-USDP)

"What kind of weapons have the Chinese sold abroad, and what effects have these arms sales had on Third World regional security developments?"

Blejer, Mario I. Szapary, Gyorgy.

The changing role of macroeconomic policies in China. Finance & development, v. 27, June 1990: 32-35.

Discusses issues in the implementation of market-oriented reforms.

Blum, Charlotte.

China sells itself. Middle East economic digest, v. 37, Sept. 3, 1993: 4-5.

Discusses the push by China to develop trade relations with Middle Eastern nations. Discusses such areas as increased exports, oil, and nuclear technology.

Bohnet, Armin. Hong, Zhong. Muller, Frank.

China's open-door policy and its significance for transformation of the economic system. Intereconomics, v. 28, July-Aug. 1993: 191-197.

"The open-door policy of the People's Republic of China is entering its 14th year in 1993. Petra Pissula and Dieter Losch presented a report in 1990 in which they took stock of the successes and failures of this policy by taking the special economic zones as an example, and they tended to assess China's future foreign trade activities pessimistically. Further progress has occurred in the open-door policy since that time, so that a revised evaluation is necessary. The aim of the present article is to show the more recent developments and problems and to examine the relationships between reforms and the open-door policy, particularly from the point of view of system transformation."

Boxer, Baruch.

China's environmental prospects. Asian survey, v. 29, July 1989: 669-686.

Delineates the environmental problems arising from economic development activities and gives a short history of the country's efforts to cope with these problems and protect its environment.

Brahm, Laurence J.

The emergence of China's securities markets. Asia money & finance, no. 3, Feb. 1992: 39-41.

Outlines the legal, administrative and regulatory framework which has been developed to govern China's burgeoning security exchanges.

Brick, Andrew B.

Chinese water torture: subversion through development. Washington, Heritage Foundation, [c1992] 5 p. (The Heritage lectures, 0272-1155; 363) HF1604 .B74 1992

"Delivered this lecture at Florida State University, Tallahassee, Florida, on January 22, 1992"

Broaded, C. Montgomery.

China's response to the brain drain. Comparative education review, Aug. 1993: 277-303.

"This article draws on the general literature on the brain drain from developing countries in order to analyze the efforts of the PRC government to minimize the loss of its highly trained personnel to other countries . . . . [Analyzes] how the PRC is utilizing its mass media to encourage CSSAs [Chinese students and scholars abroad] to 'complete their studies and return home'."

Brodsgaard, Kjeld Erik.

China's political economy in the nineties. China report, v. 27, July-Sept. 1991: 177-196.

"From a bird's eye perspective there appear to be a number of issues in the PRC's economic development and debate that crop up time and again. At the macro-level these issues primarily concern the role of accumulation, the relationship between the main sectors of the economy, plan versus market and the ownership system. This paper argues that the reason why these questions continue to play a major role in

Chinese political economy is that China has not yet succeeded in breaking away from the Soviet development strategy which was adopted and implemented since the early fifties."

Brookes, Stephen.
China on a slow boat to economic change. Insight (Washington times), v. 9, Jan. 10, 1993: 6-11, 22-25.
"The fuel driving China's economic renaissance is a package of reforms designed to let the economy respond to market forces without giving up too much government control. Though pitfalls loom ahead, most Chinese feel they've gone too far down the road of development to turn back."

Brown, David G.
Partnership with China: Sino-foreign joint ventures in historical perspective. Boulder, Colo., Westview Press, 1986. 175 p. (Westview special studies on China and East Asia) HF1604 .B76 1986

Brown, Rajeswary Ampalavanar.
Chinese business enterprise in Asia. London; New York, Routledge, 1995.
This work should be available later in 1995.

Bush, Richard.
Clinton and China: scenarios for the future. China business review, v. 20, Jan.-Feb. 1993: 16-20.
Asserts that China's politics will continue to influence U.S. policy on China's most favored nation status in the Clinton Administration.

Byrd, William A.
Rural industrialization and ownership in China. Comparative economic studies, v. 32, spring 1990: 73-107.
Examines the role of the private sector in China's rural industrialization, particularly since private enterprise was injected into the economy in the early 1980s.

Cable, Vincent. Ferdinand, Peter.
China as an economic giant: threat or opportunity? International affairs, v. 70, Apr. 1994: 243-261.
"The authors of this article first address the likelihood that China's economic expansion will continue, and then consider the perceived threats and the possible benefits of such development for the rest of the world."

Cai, Wenguo.
China's GATT membership: selected legal and political issues. Journal of world trade, v. 26, Feb. 1992: 33-61.
"It is the purpose of this article to identify and analyze some of these issues which are crucial to the solution of the problem of China's GATT membership. The major issues that will be addressed in the article include: the resumption issue; grandfather rights; the use of the non-application clause; the status of Hong Kong and Macau in the GATT; Taiwan's accession to the GATT; China's participation in Pacific institutional arrangements. This article will limit its discussion on China's GATT membership to the legal and political perspective only."

Calkins, Peter H.
The China market: how much substance to the dream? Choices, third quarter 1988: 12-15.
Analyzes impacts of domestic agricultural production, farm policy, and political ideology on the future of China's need for food imports. Concludes that it is unlikely that North American agricultural exports to China will increase greatly during this century.

Cardoso, Eliana. Yusuf, Shahid.
Red capitalism: growth and inflation in China. Challenge, v. 37, May-June 1994: 49-56.
"Some state-owned enterprises will have to be closed and labor retrenchment will be unavoidable. Providing an adequate social safety net and creating conditions conducive to greater labor mobility will prove crucial. These are the challenges ahead."

Carlson, Paul.
U.S. trade policy and the Hong Kong agreement. Journal of legislation, v. 15, no. 1, 1988: 59-72.

Note provides background on the Sino-British agreement regarding the reversion of Hong Kong to China. "China's declared policy on Hong Kong is discussed with an analysis of the Sino-U.S. trade implications of the Agreement and the influence the U.S. may wield on Hong Kong's behalf. Finally, this note proposes a stable and reasoned liberalization of trade with China as a means of ensuring the preservation of Hong Kong's status quo."

Carter, Colin A.
China's past and future role in the grain trade. Economic development and cultural change, v. 39, July 1991: 791-814.

"The purpose of this article is to analyze China's historical role in the world grain markets; to study the impact of the 1979 economic reforms on China's grain production, consumption, and trade; and to evaluate the probable participation of China in the grain trade in future years."

Chan, Kam Wing.
Cities with invisible walls: reinterpreting urbanization in post-1949 China. Hong Kong; New York, Oxford University Press, 1994. 193 p. HT384.C6 C43 1994

Chan, Ricky Yee-kwong.
Re-emergence of re-export trade between Hong Kong and China. Asian economies, v. 23, Sept. 1994: 66-79.

"The period following the opening up of China since 1978 was marked by a rapid growth in Hong Kong's re-exports, particularly those related to its motherland. Further precipitated by Hong Kong's inherent comparative advantages in intermediation, China has now become the largest market for as well as the largest supplier of Hong Kong's re-exports."

Chang, Maria Hsia.
Taiwan and the Mainland: a shifting competition. Global affairs, v. 7, summer 1992: 14-28.

"Relations between the two halves of the Chinese Nation, divided since 1949 have undergone significant changes in recent years . . . . In 1991, bilateral trade across the Strait reached new heights of $7 billion . . . . In any future negotiation between Taiwan and mainland China concerning their reunification, their respective power will be a primary determinant--defined in military, political and economic terms."

Chao, Kang.
Man and land in Chinese history: an economic analysis. Stanford, Calif., Stanford University Press, 1986. 268 p. HB2114.A3 C45 1986

Chaozun, Zhang. Li, Wen.
Socialist market economy. Social sciences in China, v. 14, summer 1993: 13-22.

Traces the development of a market economy, then looks at the differences between a socialist market economy and a capitalist market economy.

Chartrand, Luc.
Hong Kong's 'reverse takeover.' World press review, v. 39, Sept. 1992: 42.

"Economic disparities are creating growing tensions between southern China and the central government. While the economy of the south and of some coastal cities is booming. China remains a socialist country whose state enterprises, which dominate the economy, are losing money."

Chen, Hua.
China and its arbitration system in foreign trade. University of Detroit law review, v. 68, summer 1991: 457-477.

"Solving disputes by conciliation or arbitration in civil cases, as well as in commercial and maritime cases, has long been a tradition in China. This article gives an account of China's legal system in general terms, with emphasis on the stipulations and practice of China arbitration in foreign trade dispute resolution."

Chen, Kathy.

Soldiers of fortune: Chinese army fashions major role for itself as a business empire--skirting taxes and tariffs, military-run companies turn power into profit. Wall Street journal, May 24, 1994: A1, A9.

Discusses the business operation of the People's Liberation Army. "So powerful have military-run businesses become that they are emerging as a target of U.S. critics of China, who want to punish Beijing for its human-rights record. In the debate over whether the U.S. should renew China's 'most favored nation' trade status . . . the Clinton administration and some U.S. lawmakers are considering imposing selective sanctions on PLA companies."

Chen, Kuan I.

The prospects of further economic reform in China. Asian thought & society, an international review, v. 16, Oct.-Dec. 1991: 199-213.

"As a result of the partial economic reform, the Chinese economy has emerged from a centrally-planned economy to a mixed economic system . . . . A number of problems have emerged from this unbalanced, rapid economic growth during the latter part of this reform period."

Chen, Qiuping.

Foreign banks branch out in China. Beijing review, v. 35, Nov. 23-29, 1992: 13-18.

"Unburdened by the dawn of the reform and opening policy, the Chinese financial industry has hastened the introduction of foreign-funded banks. Many world-level banks have come to China with advanced financial management techniques. Despite existing problems, they are confident about their future in the Chinese market."

Chen, Te-sheng.

Conditions not yet ripe for the establishment of a greater Chinese economic sphere. Issues and studies, v. 28, Feb. 1992: 131-133.

"The rapid expansion of economic and trade relations and interaction between the two sides of the Taiwan Strait in recent years have inspired some scholars, specialists, and politicians in Taiwan to suggest that Taiwan, mainland China, Hong Kong, and Macao may strengthen economic cooperation among them by planning to establish an economic community. Economically speaking, the idea of a 'Greater Chinese Economic Sphere' conforms with the world trend of economic regionalization and will ease the pressure from other countries and economic communities."

The interaction between economic and political reform in mainland China, 1978-89. Issues & studies, v. 26, Feb. 1990: 13-34.

"The economic reforms which have been carried out in mainland China since the Third Plenary Session of the CCP's Eleventh Central Committee in December 1978 have not only brought about great economic changes, but have also had a far-reaching impact on mainland Chinese politics."

Mainland China's economic reform policies in the wake of the Fifth Plenum of the CCP's Thirteenth Central Committee. Issues & studies, v. 26, Mar. 1990: 25-42.

Contends that since previous austerity measures had caused the economy to deteriorate, controversy arose at the November 1989 "Plenum over the readjustment of economic reform measures and the restoration of the past system of centralized economic planning. In the end, the orientation of mainland China's economic reform was modified according to the economic reform policy line and ideology of the conservatives."

Private economy in Mainland China: its development, impact, and limitations. Issues & studies, v. 24, Sept. 1988: 78-95.

Discusses the development of the private economic sector in China, considering the policies and measures taken and the theory that these changes are either based on or ignore. Evaluates the current development, impact and limitations of private enterprise. Concludes that though the private economy will continue to grow, its long term development will probably be limited by Peking's insistance on the predominance of public ownership.

Chen, Wen-Tsung.
Worried about 1999. Free China review, v. 40, Mar. 1990: 54-61.

"Reports from Macau sound familiar to people who follow Hong Kong developments. But there is a significant material difference: Macau is far behind Hong Kong in the development of a modern, sophisticated, and consmopolitan metropolis. This causes differences in how Macanese respond to their impending transfer to Peking rule."

Chen, Yanping.
China's space commercialization effort: organization, policy and strategies. Space policy, v. 9, Feb. 1993: 45-53.

"This article explains how and why China is commercializing space products. It focuses on the effort's organizational structure, policy orientation and managerial strategies for supporting space commercialization activities, at both industry and government levels. It also examines political issues, such as technology transfer; legal issues, such as international treaties; and international business issues, such as comparative activities in other world space product suppliers. It concludes by examining future prospects for Chinese space commercialization."

Chen, Yong-sheng.
The income of intellectuals in Mainland China. Issues and studies, v. 28, Mar. 1992: 76-91.

"Analysis of the salary scales of teachers and professional and technical personnel in mainland China and comparison of their incomes with those of other sectors of the work force reveal that the material remuneration offered to these intellectuals has not improved under the economic reform program. Their salary levels are much lower than comparable international standards and also fall below average for mainland China. The fact that some intellectuals are paid less than manual laborers seriously affects their morale and hinders mainland China's modernization drive."

New developments in mainland China's securities market. Issues & studies, v. 27, Aug. 1991: 82-108.

The author "discusses the developments in mainland China's securities market since . . . 1989. The functions of the Stock Exchange Executive Council and the Securities Trading Automated Quotation System are deliberated. Also, the establishment, basic characteristics, and operation of the two securities exchanges are considered. The final focus is on Peking's problems in developing the securities market and the market's future prospects."

Cheng, C. Z.
Rapid changes in China's household size and structure. Asian profile, v. 22, Feb. 1994: 2-19.

"This study, making use of the published statistical data of China's three Population Censuses (. . .) and the 1987 One-Per-Hundred Sample Survey, attempts to examine the changes in the household size and structure in China; to clarify the differences in the household size and structure in Old China and New China, different regions and different urban and rural places; and to analyze the impact brought about by China's socialist revolution in the economic, social and psychological aspects of these changes."

Cheng, Chu-yuan.
Mainland China's modernization and economic reform: process, consequences, and prospects. Issues & studies, v. 27, Nov. 1991: 78-102.

"This paper outlines the process of modernization and economic reform in mainland China over the past forty years and suggests the paths the mainland Chinese economy might follow in the years ahead."

New trends in China's economic reforms and open-door policy. Asian review, v. 10, fall 1992: 28-49.

"The purpose of this paper is to survey the contradictions of China's reform program during the past decade, examine their social and economic consequences, highlight recent developments and analyze the basic contradictions and future prospects."

Peking's economic reform and open-door policy after Tienanmen incident. Issues & studies, v. 26, Oct. 1990: 43-64.

Asks "did economic reform ultimately lead to . . . unrest and was economic reform the victim of the backlash after the prodemocracy movement?"

Cheung, Tai Ming.

Disarmament and development in China: the relationship between national defense and economic development. Asian survey, v. 28, July 1988: 757-774.

Examines the post-Mao China's modernization program and the military. "The article first looks at why the leadership decided that a process of force reduction is a necessary part of the general development effort, and then considers the factors that were examined by the leadership in determining the relationship between development and the reduction of the military establishment."

Chi, Yeh.

Mainland China's grain crisis. Issues & studies, v. 25, Dec. 1989: 68-82.

Studies the problems confronting Mainland China in its efforts to increase grain production.

Chiang, Chen-chang.

The role of trade unions in mainland China. Issues & studies, v. 26, Feb. 1990: 75-98.

Reviews the development of China's trade unions, including their role in political affairs. Also examines "Peking's attitude toward workers' demands for the formation of an independent trade union modeled on Poland's Solidarity union."

Chiang, Chen-ch'ang.

The social aftermaths of mainland China's economic reform. Issues & studies, v. 25, Feb. 1989: 26-46.

Looks at some of the problems that have arisen in the course of China's modernization drive, such as production bottlenecks, poor income distribution, and party corruption.

China: agriculture and trade report; situation and outlook series. Washington, U.S. Dept. of Agriculture, Economic Research Service, 1992. 82 p.

"RS-92-3, July 1992"

Partial contents.--China's trade with neighboring countries since the early 1980's, by Francis Tuan.--China's barley: an analysis of production, consumption, and trade, by Frederick W. Crook.--China's food consumption and production patterns in the year 2000: implications for trade, by Shwu-Eng H. Webb, Alan J. Webb, and William T. Coyle.--China's agricultural marketing system in the 1980's, by Shwu-Eng H. Webb and W. Hunter Colby.--Rural labor force trends in China, by Judith Banister and Christina W. Harbaugh.

China: economic reform and macroeconomic management. Washington, International Monetary Fund, 1991. 38 p.

China: energy; major power grids. JPRS report (Science & technology), Nov. 7, 1990: whole issue (1-27 p.)

Partial contents.--Problems associated with operation of domestic power systems.--Northeast China.--North China.--Central China.--East China.--Eastern grid capacity update.--Eastern, central grids interlinked.--Construction of five power grids completed.

China: foreign trade reform. Washington, World Bank, c1994. 334 p. (A World Bank country study, 0253-2123) HF1604 .C4513 1994

China: south survey. South, no. 111, Jan. 1990: 57, 59-60, 62-63, 65, 67-68.

"Beijing has affirmed its support of economic reform and an open-door trade policy with the West, but it says more central planning is needed to ensure a cool-down of the economy, not least an easing of inflation. In the last decade, China has had the fastest GNP growth rates in the world. The economic adjustment programme introduced in October 1988 is producing results. However, the programme's measures, plus the recentralisation of control, have made foreign investors wary."

China: the coming changes. American enterprise, v. 2, Jan.-Feb. 1991: 18-25.

China and Hong Kong: the economic nexus. Edited by A.J. Youngson. Hong Kong; New York, Oxford University Press, 1983. 315 p. HC470.3 .C44 1983

China deconstructs: politics, trade and regionalism. Edited by David S.G. Goodman and Gerald Segal. London; New York, Routledge, c1994.
This work should be available later in 1995.

China policy: fostering US competitiveness and the bilateral relationship. China business review, v. 20, Jan.-Feb. 1993: 10-15.

China pushing bigger foreign role in onshore exploration. Oil and gas journal, v. 91, Oct. 11, 1993: 21-24, 26.

China's arms sale. Far Eastern economic review, v. 140, June 2, 1988: 22-28.
Partial contents.--China's bargain sale: bangs for a buck, by Tai Ming Cheung.--Proliferation is good, and there's money in it too, by Tai Ming Cheung.--Chinese missile sales shake Taiwan's diplomatic ties, by Shim Jae Hoon.

China's economic dilemmas in the 1990s: the problems of reforms, modernization, and interdependence. Edited by the Joint Economic Committee, Congress of the United States. Armonk, N.Y., M.E. Sharpe [1992] 954 p. (Studies on contemporary China) HC427.92 .C46469 1992

China's economic reforms, 1978-87. [London, H.M. Stationery Office] 1988. 64 p. (Foreign policy document, no. 181)

China's economy in 1993 and 1994: the search for a soft landing. Washington, Central Intelligence Agency, available from NTIS, 1994. 36 p.
Partial contents.--Rapid growth brings mixed blessings.--Buying time: Beijing pumps the brakes.--New reforms mark shift in strategy.--China's economic sectors: gains marred by tough problems.--State industries fall further behind.--Agriculture's mixed harvest.--Policy shifts buffet China's financial sector.--Beijing's budget deficits set to climb.--Growth pressures evident in foreign trade.--Foreign investment surge continues.--Appendixes: a chronology of economic and political developments, January 1993-June 1994; China's bilateral trading relationships; enterprise ownership reforms and the "modern enterprise system."
This is an annual report, which is available in July.

China's fossil fuels. China business review, v. 18, Mar.-Apr. 1991: 22-33, 36-37.
Contents.--Fueling the economy, by J.P. Huang.--Tapping China's coalbed methane, by Jessica Poppele.
"Plagued by lack of capital investment, skewed pricing, transport bottlenecks, and inefficient utilization, the coal sector has not been able to keep pace with overall economic growth .... Beijing appears to be gaining interest in methane recovery as a means to protect the environment and increase energy options."

China's global presence: economics, politics, and security. Edited by David M. Lampton and Catherine H. Keyser. Washington, American Enterprise Institute for Public Policy Research, 1988. 237 p. (AEI studies 466)
Partial contents.--Driving beyond the headlights: the politics of reform in China, by David M. Lampton.--Economic and political development in the Republic of China, by John Fuh-sheng Hsieh and Chung-lih Wu.--China's economy in the year 2000, by Albert Keidel.--The nature and implications of United States-China trade toward the year 2000, by Roger W. Sullivan.--China's modernization and the big powers: strategic implications, by William T. Tow.--Implications of China's modernization for East and Southeast Asia security: the year 2000, by Robert G. Sutter.

China's industrialization and its environmental costs. Social sciences in China, v. 14, winter 1993: 37-47.
Shows that the "consumption of China's environmental resources in the past four decades has been considerable" with resource waste as a major feature of this consumption. Focuses on water resources, forest resources, air pollution, energy, soil erosion and natural disasters.

China's markets take shape. Asia money & finance, no. 7, June 1992 suppl.: 1, 3-5, 8, 13, 15, 18-21, 23-25, 27-34.

The Chinese economy in 1988 and 1989: reforms on hold, economic problems mount. Washington, Central Intelligence Agency, available from NTIS, 1989. 20 p.

"EA 89-10023"

Claims that "the preoccupation of China's leaders with consolidating power, restoring ideological orthodoxy, and maintaining social order will probably prevent them from formulating new solutions to the country's economic problems."

The Chinese economy in 1989 and 1990: trying to revive growth while maintaining social stability. Washington, Central Intelligence Agency, available from NTIS, 1990. 23 p.

"EA 90-10023"

Partial contents.--Curbing runaway growth.--Economic problems threaten social stability.--Recent policy initiatives.--Economic outlook.

The Chinese economy in the early twentieth century: recent Chinese studies. Edited by Tim Wright. New York, St. Martin's Press, 1992. 220 p. HC427.8 .C4875 1992

Chow, Irene Hau-Siu. Shenkar, Oded.

HR [human resources] practices in the People's Republic of China. Personnel, v. 66, Dec. 1989: 41-47.

"A study of eight enterprises in Beijing shows that China's willingness to embrace Western technology does not extend to state-of-the-art practices in human resources management."

Chow, Larry Chuen-ho.

The changing role of oil in Chinese exports, 1974-89. China quarterly, v. 131, Sept. 1992: 750-765.

"This article examines the changing role of oil in Chinese exports with respect to its contributions to export earnings, effect on composition of exports and balance of payments, as well as impacts on the general development strategy adopted at different times. The relationship between variations in domestic oil production and amount of hydrocarbon exports will also be studied."

Choy, Jon.

Japan's ties with China, Hong Kong and Taiwan: triple treat or trouble? Washington, Japan Economic Institute, 1993. 9 p. (JEI report no. 31A)

"Optimistic Asian business leaders call the PRC, Hong Kong and Taiwan the 'Golden Triangle of Opportunity' that will lead the region in growth over the next 10 years. Eager to catch this economic wave, Japanese businesses are investing in each of the Golden Triangle areas and seeking local partners. In contrast to this cooperative aspect is the intense competition by these four economies in third markets. From a political-security standpoint, moreover, China looms large in Japan's Asian policies. Beijing's determined program of military modernization has sparked worries not only in Tokyo but in other Asian capitals as well. At the same time the potential benefits of Sino-Japanese foreign policy coordination cannot be ignored, nor can the downside of foreign policy conflict between Asia's two economic giants. Just as Japan's relations with the United States and European countries are changing in response to new security and economic developments, so, too, are Japan's ties to the Chinese trio."

Chu, Lynn.

The chimera of the China market. Atlantic monthly, v. 266, Oct. 1990: 56-58, 61, 64, 66-68.

"It isn't only the American government that has been fooled by the bogus prospect of the 'new China.' American business, bedazzled by all those customers, has suffered the same costly delusion."

Chung, Jae Ho.

Sino-South Korean economic cooperation: an analysis of domestic and foreign entanglements. Journal of Northeast Asian studies, v. 9, summer 1990: 59-79.

Provides data on trade, joint ventures, and other cooperative endeavors between South Korea and China from 1979 through 1989.

Clark, Phillip S.

China's recoverable satellite programme. Jane's intelligence review, v. 5, Nov. 1993: 517-522.

"Beginning in 1974, China launched a series of recoverable satellites. These were connected with programmes involving remote sensing and microgravity research.

Although the first launch was a failure, all subsequent flights were successful. This record has allowed China to claim complete success in recovering satellites from orbit."

Clarke, Donald C.

Dispute resolution in China. Journal of Chinese law, v. 5, fall 1991: 245-296.

"It is clear that the set of institutions and practices going generally under the name of 'medication' (tiaojie) in China is of great importance in the field of dispute resolution. It is equally clear, however, that what is called medication in China is very different from what is called mediation in [English] . . . . It would be seriously misleading simply to use the English word without further explanation."

Regulation and its discontents: understanding economic law in China. Stanford journal of international law, v. 28, spring 1992: 283-322.

"This article examines some of the issues faced by the Chinese Government as it undertakes economic reform and makes rules for the market. In particular, it looks at the problems of marketization in a state-owned industry."

Clemente, Lilia.

Investing in Asia's emerging equity market. Columbia journal of world business, v. 29, summer 1994: 92-121.

"Asian equity markets have been hot for some time and they show no dramatic signs of cooling. The economies of the region have moved towards greater economic and financial integration while opening their capital markets to foreigners. Attracted by strong economies, credible reforms and further intentions of liberalization, global investors have made significant investments." Includes accompanying article, China's Emerging Securities Market, by Yi-Chen Zhang and Da Yu.

Communication: the present situation and characteristics of China's energy consumption. Energy policy, v. 22, Dec. 1994: 1075-1077.

"It is necessary to introduce technology innovation for energy conservation because of the low energy efficiency of equipment and the backwardness of industrial technologies."

Confucianism and economic development: an oriental alternative? Edited by Hung-chao Tai. Washington, Washington Institute for Values in Public Policy. 1989. 233 p.

Partial contents.--The Oriental alternative: an hypothesis on culture and economy, Hung-chao Tai.--Economic performance in five East Asian countries: a comparative analysis, by Yuan-li Wu and Hung-chao Tai.--Historical factors affecting China's economic underdevelopment, by Hang-sheng Cheng.--Confucianism and Japanese modernization: a study of Shibusawa Eiichi, by Kuo-hui Tai.--The divergent economic development of China and Japan, by Edward F. Hartfield.

Constructive attitude essential for Sino-US economic relations. Beijing review, v. 34, May 20-26, 1991: 33-39.

"Since last year, there has been continuous talk in the US Congress and mass media alleging that the United States has suffered a growing unfavorable balance in its trade with China, that China lacks protection of intellectual property rights, and that Chinese exports to the United States have a proportion of prison-made products. Since this has negatively affected Sino-US trade relations, it is necessary to clarify the facts and present China's point of view."

Cooper, Mary H.

U.S.-China trade. CQ researcher, v. 4, Apr. 15, 1994: 313-335.

"Has China made significant strides in its human rights performance? Is MFN a suitable policy tool to pressure repressive governments into recognizing human rights? Would denial of MFN help human rights in China?"

Cormac, Susan Mac.

Eyeing the GATT. China business review, v. 20, Mar.-Apr. 1993: 34-38.

"China's accession to the GATT now seems inevitable--only questions of when and under what terms remain."

Cosslett, Patrick D.
Markets in China for building materials and supplies. Construction review, v. 35, July-Aug. 1989: 14-17.

"The report covers in considerable detail the current status and future plans for development of the construction industry in China. The categories covered include the residential housing markets, the commercial construction markets, the country's infrastructure and the building materials markets."

Crane, Keith. Yeh, K. C.
Economic reform and the military in Poland, Hungary and China. Santa Monica, Calif., Rand Corporation, 1991. 138 p. (Rand report R-3961-PCT)

Cranford, John R.
Trade and foreign policy: the ties that bind. Congressional Quarterly weekly report, June 9, 1990: 1773-1778.

Examines the continuing influences that foreign policy has on trade matters in the U.S. Congress. Notes that "unencumbered trade has become the goal of those who believe the United States has lost its economic edge. Yet when Congress wants to pressure the . . . Chinese over human rights, trade is about the only weapon around."

Creedon, Lawrence P.
China's second Long March: the rise of an economic trade giant. USA today (magazine), v. 123, Sept. 1994: 27-28.

"The world's most populous country offers virtually unlimited opportunities for American businessmen--if they understand how the Chinese operate."

Crook, Frederick. Tuan, Francis.
China's reforms stall, but U.S. food exports continue. Farmline, v. 11, Mar. 1990: 8-11.

"Before the political upheaval in China's cities . . . U.S. agricultural exports to that country were increasing and are projected to continue to increase."

Cruel money: who profits from China's Laogai exports? Milpitas, Calif., Laogai Research Foundation, 1993. 16 p.

"A three month investigation by the Laogai Research Foundation reveals extensive Chinese government efforts to hide the origin of the products by changing the factory names of the prisons, opening new sales offices, changing product brand names, and continuing the effort to integrate Laogai enterprise with legitimate businesses."

Crump, G. Lindsay.
Housing in China: one manager's view. Journal of property management, v. 53, May-June 1988: 17-22.

Discusses efforts by the Chinese government to expand the housing stock and to "commercialize" housing by having occupants buy their units. Includes companion article by Eric Carlson: Housing Conditions in the People's Republic.

Curran, John J.
China's investment boom. Fortune, v. 129, Mar. 7, 1994: 116-118, 120, 122, 124.

Says that foreign "investment in China has merit--lots of it. But there are risks, too, and they are getting bigger than most investors realize."

Davies, Simon.
Appetite for China outstrips the supply. Asia money & finance, no. 9, Sept. 1992: 61, 64-65.

"Huge amounts of foreign money have been raised in proportion to the offerings so far on China's two stock markets. Where over-eager demand meets embryonic markets, the recipe is one for confusion."

Degong, Chen.
Coastal zone development, utilization, legislation, and management in China. Coastal management, v. 17, no. 1, 1989: 55-62.

Delfs, Robert.
China's rivers. Far Eastern economic review, v. 147, Mar. 15, 1990: 22-24, 26, 28-29.

Contents.--Wealth and woe.--The canal's siblings.--Troubled waters.--Arteries of the empire.

—

Poison in the sky: China tops list of acid rain suspects. Far Eastern economic review, v. 156, Feb. 4, 1993: 16.

Discusses first clear indication from environmental research that cross-border pollution from China and Korea might be contributing to acid rain in Japan.

Deng, Zhiduan.

China's brain drain problem: causes, consequences and policy options. Journal of contemporary China, v. 1, fall 1992: 6-33.

"The brain drain has become a growing problem for China's overseas education, especially after the Tiananmen Incident of June 1989. Brain drain is a symptom of a home country's social, economic, or political problems. In China, political alienation, low income, poor living conditions, insufficient research facilities, and mismanagement of high-level manpower are the major factors pushing intellectuals to seek development opportunities abroad."

Dennis, Robert D.

The countertrade factor in China's modernization plan. Columbia journal of world business, v. 17, spring 1982: 67-75.

"This paper examines the modernization policies of the People's Republic of China that relate to the expansion of foreign trade. The author traces China's appetite for imports and its corresponding need to export in order to satisfy its balance of payments. Because China does not have established foreign markets or products that are easily marketable, it has resorted to an Eastern European strategy of requiring importers of technology and commodities to accept a form of countertrade in partial payment. The variations of Chinese countertrade are defined, and their problems and prospects for fcuture expansion are explored."

Denny, David L.

The balance of payments after Tiananmen. China business review, v. 16, Nov.-Dec. 1989: 48-52.

"The political crisis of Beijing's spring and its bloody aftermath will increase pressure on China's already tight balance of international payments. Reduced foreign-exchange income from tourism, bond sales, and other decreased capital flows will no longer offset the large merchandise trade imbalance of 1988-89 that resulted from 1988's inflationary economic policies."

The Development of China (1949-89). Beijing, China, Beijing Review Press [1989] 33 p.

Contents.--Outline of economic and social development.--Supplement: statistical tables.

Dollar, David.

Economic reform and allocative efficiency in China's state-owned industry. Economic development and cultural change, v. 39, Oct. 1990: 89-105.

Finds "that during the period of Chinese industrial reform total factor productivity has been increasing rapidly in 20 state-owned enterprises surveyed by the World Bank. This productivity performance stands in sharp contrast to the prereform period, during which Chinese industry was notorious for its stagnant total factor productivity."

South Korea-China trade relations. Asian survey, v. 29, Dec. 1989: 1167-1176.

Examines the growth of trade relations between South Korea and China, claiming that South Korean direct investment may "alleviate many of the problems standing in the way of greater trade."

Dorian, James P. Fridley, David. Tressler, Kristin.

Multilateral resource cooperation among Northeast Asian countries: energy and mineral joint venture prospects. Journal of Northeast Asian studies, v. 12, spring 1993: 3-34.

"This article examines the emerging opportunities for regional cooperation in resources within Northeast Asia, while also reviewing historical cooperation in the energy and minerals industry . . . . The authors conclude that small- to medium-scale joint venture projects involving energy and minerals have a more reasonable chance of being established in Northeast Asia than do mega-projects."

Dorn, James A.
Economic reform in China. Cato journal, v. 8, winter 1989: 53-675.

Partial contents.--Using the market for social development, by Milton Friedman.--Privatization vs. special interests: the experience of China's economic reform, by Steven N. S. Cheung.--Economic chaos or spontaneous order? Implications for political economy of the new view of science, by Don Lavoie.--A free-market constitution for Hong Kong: a blueprint for China, by Alvin Rabushka.--Economic deregulation in the United States: lessons for America, lessons for China, by William A. Niskanen.--Let a billion flowers bloom, by George Gilder.

Dunne, Michael J.
The race is on. China business review, v. 21, Mar.-Apr. 1994: 16-18, 20, 22-23.

Describes how the world's leading auto makers are entering the Chinese market. "The interest of these companies is generally warranted, despite the uncertainties of China's infant auto industry. Domestic assemblers and parts suppliers enjoy considerable government support, demand for vehicles is strong, and the country's economy is growing by leaps and bounds."

Easson, A. J. Li, Jinyan.
The evolution of the tax system in the People's Republic of China. Stanford journal of international law, v. 23, summer 1987: 399-447.

"Presents a historical picture of China's tax system, concentrating on the 1980s when post-Mao reforms came into play. Discusses personal income taxes, business income taxes (including taxes on state enterprises, joint ventures, and foreign enterprises), agricultural taxes, indirect taxes, local taxes, tax treaties, and special economic zones."

Economic cooperation in the Asia-Pacific region. Edited by John P. Hardt and Young C. Kim. Boulder, Colo., Westview Press, 1990. 224 p.

Partial contents.--Japan's role in Asia-Pacific cooperation: dimensions, prospects, and problems, by Edward J. Lincoln.--Asia-Pacific economic cooperation and U.S.-Japan relations, by Dick K. Nanto.--Trade, policy, and Korea-U.S. relations, by Paul W. Kuznets.--Korea's perspectives on Asia-Pacific economic cooperation, by Bon Ho Koo.--China and Asia-Pacific economic cooperation, by Nicholas R. Lardy.--Economic cooperation in the Asia-Pacific region: the Southeast Asia dimension, by Anthony C. Albrecht.--Taiwan's future role in international and regional economic cooperation, by Yuan-li Wu.--The future role of Hong Kong in the international and regional economy, by Yuan-li Wu.--U.S. economic policy in a world of regional trading blocs, by Richard Belous.

Economic reform and political change in Asia. San Francisco, Asia Foundation, Center for Asian Pacific Affairs, 1994. 50 p.

Partial contents.--Dynamics of political and economic change in the contemporary world, by Robert A. Scalapino,--Reforming socialism and political consequences in China, by Mao Yu-shi.--Vietnam on the track of reform, by Nguyen Trung.--Mongolia's political transformation, by Hashbat Hulan.

Economic reform and the development of the non-state sector: a case-study of China. World economic survey, 1993: 185-201.

"China has chosen a policy of promotion of the rapidly growing non-state sector instead of one of privatization of state enterprises. This path towards a market economy, referred to as marketization, focuses on subjecting all production units regardless of ownership to market forces rather than to privatization of production .... The following analysis presents the evolution of the non-state sector in the last decade and a half."

Economic reform in China: a new phase. Washington, International Monetary Fund, 1994. 84 p. (Occasional paper no. 114)

"Discusses the current reform program with particular focus on aspects relating to macroeconomic management."

Partial contents.--Exchange and trade system reforms.--Monetary policy and financial sector reforms.--Fiscal system reforms.--Investment system reform.--State enterprise reform.

Economic reform in China: problems and prospects. Edited by James A. Dorn and Wang Xi. Chicago, University of Chicago Press, 1990. 383 p. HC427.92 .E37 1990

Based on a Cato Institute conference, cosponsored by Fudan University in Shanghai and held in September 1988 at the Shanghai Hilton.

Eisenstodt, Gale.

"We are Matsushita's pupils." Forbes, v. 154, Sept. 26, 1994: 95-96, 98, 100.

Discusses the return of the Japanese to Manchuria, not as conquerors, but as investors.

Eiteman, David K.

American executives' perceptions of negotiating joint ventures with the People's Republic of China: lessons learned. Columbia journal of world business, v. 25, winter 1990: 59-67.

"Some 272 US/China joint ventures were reported by Chinese authorities to have been established between 1979 and 1986, representing a financial commitment of $1,598 billion by US companies in China. Each of these ventures was painstakingly negotiated under conditions which most American business executives found difficult, leading American managers to continually seek more effective means of negotiating with China."

Elliott, Kimberly. Hufbauer, Gary C.

China sanctions: would they work? International economic insights, v. 5, May-June 1994: 31-32.

"Having got itself into an uncomfortable dilemma over China's human rights policies, the US Administration must now respond with limited, targeted sanctions to retain its credibility and yet avoid a fullscale trade war."

The Emerging framework of Chinese civil law. Law and contemporary problems, v. 52, summer 1989: whole issue (224 p.)

Collection of 15 articles by Whitmore Gray, Henry Ruiheng Zheng, Gao Xi-Ching, Herbert Bernstein, Percy R. Luney, Jr., Tong Rou, Edward J. Epstein, Zhao Zhongfu, Wang Liming, Liu Zhaonian, Fang Liufang, William Jones, Phyllis L. Chang, Ye Lin, James V. Feinerman, Marc A. Sobel, and Danian Zhang.

The End of central planning? Socialist economies in transition: the cases of Czechoslovakia, Hungary, China, and the Soviet Union. New York, Institute for East-West Security Studies ; Athens, Hellenic Foundation for Defence and Foreign Policy, c1990. 112 p.

Energy policies and the greenhouse effect: a study of national differences. Energy policy, v. 19, Dec. 1991: 911-917.

Country studies, including Japan, China, and the U.S., "emphasize large national differences in underlying attitudes toward energy and the greenhouse effect . . . . The potential for curtailing emissions is determined by factors including: the stage of a country's development; the character of its economic system and philosophy; its political culture; and the nature of its energy infrastructure, institutions and attitudes, all of which are determined by the past and current availability of cheap domestic energy resources."

Engen, John R.

Training Chinese workers. Training, v. 31, Sept. 1994: 79-83.

"American firms in China use a grab bag of training and motivational techniques to help workers move from a communist past to a capitalist promise."

Epner, Paul.

Managing Chinese employees. China business review, v. 18, July-Aug. 1991: 24-25, 28, 30.

The author, a general manager of a diagnostic reagent-manufacturing joint venture in China, discusses his experiences. Contends that "the key to success lies not only in finding the right individuals, but in molding them according to your company's needs and then maintaining their effectiveness as the business and work environment change. There is no unique method for managing Chinese employees; common sense and paying attention to a few simple rules will produce the best results."

Expanding Sino-American business and trade: China's economic transition. Edited by Dennis A. Rondinelli. Westport, Conn , Quorum Books, 1994. 270 p.
HF1604.Z4 U64 1994

Fairbank, John King.
Trade and diplomacy on the China coast; the opening of the treaty ports 1842-1854. Stanford, Calif., Stanford University Press [1969] 583 p.
HF3776 .F3 1969

Fairlamb, David.
Surging, churning China. Institutional investor, v. 27, Jan. 1993: 33-40, 43-44.

Argues that for its new stock exchanges to succeed, China "must gently curb inflation, sustain its amazing growth and develop meaningful regulation."

Fan, C. Cindy.
Regional impacts of foreign trade in China, 1984-1989. Growth & change, v. 23, spring 1992: 129-159.

Fang, Shan.
The growing role of township enterprises in Mainland China's economy. Issues and studies, v. 28, Feb. 1992: 128-130.

"The rapid growth of township enterprises in the past year has to a certain extent alleviated mainland China's economic crisis. The total output value of these enterprises increased by twenty times in the past thirteen years, from 49.3 billion yuan in 1978 to over 1,000 billion yuan in 1991, accounting for 25 percent of mainland China's total output value, 30 percent of its industrial output value, and 60 percent of its agricultural output value. Meanwhile, the absorption of about 100 million surplus laborers into these township enterprises has helped stability in the rural areas."

Feinerman, James V.
Economic and legal reform in China, 1978-91. Problems of communism, v. 40, Sept.-Oct. 1991: 62-75.

"The structural relationship between law and the economy is one of the most crucial determinants of China's prospects for modernization, but, except for foreign investment law and economic contracts, few analysts have looked closely at the relationship between legal and economic reform. This article . . . [surveys] the relationship between recent economic reforms in China and the legal reforms that have both paved the way for them and followed in their wake."

The evolving Chinese enterprise. Syracuse journal of international law and commerce, v. 15, winter 1989: 203-214.

Article examines the legal changes that have accompanied economic reform and the "expanded autonomy" given factory managers. Asks "if, indeed, Chinese enterprises are becoming the equivalent of Western corporations, then what does Chinese corporate law look like? Are there corresponding legal enactments which support the historic decentralization of China's industrial production and embrace of market mechanisms?"

The quest for GATT membership: will Taiwan be allowed to enter before China? China business review, v. 19, May-June 1992: 24-27.

Says that "China's centrally planned--albeit reforming--economy is fundamentally incompatible with the GATT's market-economy principles. While collective efforts through the GATT might bring China more in line with international trade norms, some countries may find that their bilateral demands on China will be less effective if China is accorded full GATT status."

Fenwick & West.
1994 update: international legal protection for software. International quarterly, v. 6, July 1994: 36-62.

Partial contents.--Republic of China software export inspection system.--NAFTA approval.--GATT approval.--Copyright protection.--Trademark protection.--Patent protection.

Field, Robert Michael.
China's industrial performance since 1978. China quarterly, v. 131, Sept. 1992: 577-607.
Concludes that "because Chinese industry has been faced with low productivity and declining profit over the last five years, it seems likely that the rate of growth over the rest of the decade will decline."

Floum, Joshua R.
Counterfeiting in the People's Republic of China: the perspective of the "foreign" intellectual property holder. Journal of world trade, v. 28, Oct. 1994: 35-59.
"This article will examine the sources of the piracy problem in China. It provides . . . an abbreviated history of modern China's commercial relations with the outside world to provide context for its subsequent discussion of approaches to solutions. The article then will discuss . . . the intellectual property (IP) laws of the PRC and the agencies and legal authorities responsible for their enforcement."

Focus: China. Far Eastern economic review, v. 143, Mar. 2, 1989: 43, 47-52, 54, 59-66, 70.
Series of articles, claims that "record levels of inflation, grossly overheated industrial growth, worsening grain shortages, and swelling public discontent over offical corruption and abuse of power made 1988 the most difficult year" in a decade. Also describes the foreign trade picture, prospects for the special economic zones (SEZs), and population control measures.

Focus: China in the reform era. Edited by Charles E. Morrison and Robert F. Dernberger. Honolulu, Hawaii, East-West Center, 1989. 125 p.
Partial contents.--China's political reforms.--China's economic reforms.--Demographic and social change in China.--Environmental problems and economic modernization.--China's role in the Asia-Pacific region.

Forecasting steel demand in China. Resources policy, v. 17, Sept. 1991: 196-210.
"Chinese steel demand will grow from 60 million tons in the late 1980s to 100 million tons by the year 2000. The Chinese steel market will then rank equal with markets in Japan, the USA and the European Community. Chinese steel demand is predicted to stay below the level of 1988 until 1992. After a strong recovery in 1992-93, steel demand will then grow at 5% per annum in the second half of the 1990s."

Frankenstein, John.
Decision-making in the Chinese foreign trade administration: a preliminary survey. Columbia journal of world business, v. 23, fall 1988: 35-40.
"Personal interviews with Chinese foreign trade decision-makers in several locations in China revealed Chinese perceptions of important variables in what 'makes the deal.' The availability of foreign exchange together with price and other immediate cost factors appear to be key issues. In the complexities of the Chinese administrative maze, the end-user emerged as a key decision-maker in choosing a foreign vendor, but local and central authorities were also important. The survey showed that a certain degree of decentralization has occurred in China."

Friedman, Edward.
Deng versus the peasantry: recollectivization in the countryside. Problems of communism, v. 39, Sept.-Oct. 1990: 30-43.
"The success of Deng Xiaoping's policy of decollectivization and marketization has made peasants into opponents of the disgruntled, democratically-oriented urban population."

From Reform to growth: China and other countries in transition in Asia and Central and Eastern Europe. Paris, Organisation for Economic Co-operation and Development, 1994. 286 p.
Reprints papers presented at a Dec. 1993 conference.
Partial contents.--Understanding the reform experiences of China, Eastern Europe and Russia, by Jeffrey Sachs and Wing Thye Woo.--Reforming a planned economy: is China unique? by Barry Naughton.--China's open economy reforms 1978-1992, by David Wall and Kiichiro Fukasaku.--Economic transition in China: what makes China different, by F. Gerard Adams.--Mongolia's reform: experiences and prospects, by John J. Gonzales.

Fu, Feng-cheng.
The decentralization of Peking's economic management and its impact on foreign investment. Issues and studies, v. 28, Feb. 1992: 67-83.

"This article first examines the views of overseas scholars concerning economic decentralization in mainland China, then analyzes the decentralization measures, their background, and the reasons for their implementation. After considering the effects of the economic reform program on decentralization, the article concludes with an assessment of the impact of decentralization on foreign investment."

Gallagher, Joseph P.
China's military industrial complex. Asian survey, v. 27, Sept. 1987: 991-1002.

"China has begun a new attempt at military modernization. The latest movement to strengthen the Chinese military . . . [is] a key element of the Four Modernizations . . . . Of particular note has been the establishment of China's military-industrial complex, a vast system of defense industries and military organizations dedicated to the production of military equipment . . . . However, an examination of China's military-industrial complex reveals that it is ill-suited to the task of absorbing modern military technology."

Gallagher, Michael G.
Nuclear power and mainland China's energy future. Issues & studies, v. 26, Dec. 1990: 100-120.

Due to scarcity, inefficiency and pollution, China faces an energy crisis. Costs, cleanliness and the need to boost its technological prowess are reasons China seeks nuclear power for civilian use.

Garten, Jeffrey.
The Clinton Asia policy: thinking beyond the current U.S.-Japan trade conflict. International economy, v. 8, Mar.-Apr. 1994: 18-19, 58-60.

Defines the challenge of Asia as that of "competing head-on with the world's largest block of vibrant economies; of constructively absorbing hundreds of millions of new entrants into the global workforce; of turning swords into plowshares on the part of nations accumulating new weapons at alarming rates; of building a true partnership with Japan; of integrating economies like China into the world system; of working with Indonesia in its effort to become a leader in the region, etc."

Gelatt, Timothy A.
China's new cooperative joint venture law. Syracuse journal of international law and commerce, v. 15, winter 1989: 188-201.

Article concludes that the Chinese Joint Venture (CJV) law "follows in the now almost ten-year tradition of PRC [People's Republic of China] foreign economic statutes by painting a broad outline and leaving many issues unanswered. The implementing regulations and other supplementary rules and interpretations that will gradually emerge should answer many of these questions . . . . Given the still incomplete nature of statutory law--particularly for CJVs--practice, as a popular Chinese catch phrase puts it, remains in many cases the sole criterion of truth."

Getting down to business: the human rights responsibilities of China's investors and trade partners; a report by the International League for Human Rights. New York, The League [1992] 50 p. HF1456.5.C6 G46 1992

"Principal author was Timothy A. Gelatt; Diane F. Orentlicher was principal editor."

Gelber, Harry G.
China's new economic and strategic uncertainties and the security prospects. Asian survey, v. 30, July 1990: 646-668.

Reviews the progress of China's modernization program and the implications for superpower relations. Claims that complete economic and technological modernity cannot be achieved "without the kind of immersion in global information networks, money exchanges, and personal contacts that have so far been regarded by Beijing as deeply subversive of the present social organization of China."

Geping, Qu.

China's dual-thrust energy strategy: economic development and environmental protection. Energy policy, v. 20, June 1992: 500-506.

"In view of rather serious environmental problems incurred in the course of energy development, the element of environmental protection should be given due consideration and incorporated into China's future energy development strategy. The new energy strategy should include, inter alia, effective control of the total volume of energy consumption; energetic development of hydropower, nuclear power, solar power and other forms of clean energy; increased conversion of coal into clean electric power; great efforts to save energy and reduce energy consumption in coal-electricity conversion; and active popularization of the use of gasified coal and central heating systems in urban areas."

Giunta, Tara Kalagher. Shang, Lily H.

Ownership of information in a global economy. George Washington journal of international law and economics, v. 27, nos. 2-3, 1993-1994: 327-358.

"Article reviews the treatment of intellectual property by Japan, China and India, and makes several recommendations designed to assist Western industries in doing business in these important markets." Also assesses the new GATT provisions regarding intellectual property.

Givant, Norman P.

Closing up shop in China. China business review, v. 19, Mar.-Apr. 1992: 22-26.

"Shanghai's regulations on the dissolution of foreign-invested enterprises could become the national norm."

Glasgall, William. Lee, Dinah.

China: the great leap backward. Business week, no. 3111, June 19, 1989: 29-35.

Discusses the implications of the assertion of control and crackdown on dissent by the hard-liner leadership in China. Companion articles examine the impact of the unrest on foreign investments in China and on Hong Kong's future.

Goldberg, Morton David. Feder, Jesse M.

China's intellectual property legislation: new copyright regulations leave much to be desired. China business review, v. 18, Sept.-Oct. 1991: 8-11.

"China's new copyright legislation will likely disappoint those hoping it will enable China to accede to international copyright conventions and avoid US trade sanctions."

Goldin, Ian. Knudsen, Odin. Brandao, Antonio S.

Modelling economy-wide reforms. Paris, Organisation for Economic Co-operation and Development, 1994. 296 p.

Partial contents.--Agricultural and economy-wide reforms: developing country implications.--The China agriculture in general equilibrium model.--Structural change in Taiwan: emphasis on the role of agriculture.--Adjusting to a food price increase in the context of stabilization policies: an analysis using archetype financial CGEs for developing countries.

Goldman, Charles A.

U.S. commercial policy toward China: policy process and future prospects. Santa Monica, Calif., Center for Asia-Pacific Policy, Rand, 1995. 20 p. (Working paper 95-1)

"This paper analyzes the basic forces and the policy process underlying the dramatic shift in the Clinton administration's policy toward China during the spring of 1994. By tracing the impact of commercial, security, and human rights forces on the executive branch and Congress, the analysis describes how the executive policy process failed to respond smoothly to basic shifts in the interests during the critical period in early 1994."

Goldman, Marshall I.

The Chinese model: the solution to Russia's economic ills? Current history, v. 92, Oct. 1993: 320-324.

Compares economic reform in China and Russia. "What did the Chinese do right, why didn't the Soviets do the same thing, and if they had would it have made any difference?"

Goldstein, Carl. Kaye, Lincoln. Blass, Anthony.
Cover story: economies. Far Eastern economic review, v. 156, July 15, 1993: 68-70, 72-75.
Examines the status of the economic system in China. Considers complaints of the peasants; status of the banks; black market, and other aspects of the Chinese economy.

Gordon, Roger H. Li, Wei.
Chinese enterprise behavior under the reforms. American economic review, v. 81, May 1991: 202-206.
Examines China's economic reforms which decentralized many decisions away from central planners to the level of the firm. Discusses the impact of reform on the state-owned sector as well as on the private and collective sectors.

Gorham, Sid. Chadran, Achmad M.
Telecom races ahead. China business review, v. 20, Mar.-Apr. 1993: 18-20, 22, 24-28, 30-33.
Discusses the planned rapid expansion of the telecommunications sector in China. Argues that foreign companies should look "beyond direct sales and technology licensing. Many industry leaders are already moving quickly to establish in-country production facilities and position themselves in this increasingly competitive--but lucrative--market."

Gottschang, Thomas R.
The economy's continued growth. Current history, v. 91, Sept. 1992: 268-272.
Reviews the progress of the Chinese economy and foreign trade since 1988.

Granick, David.
Multiple labour markets in the industrial state enterprise sector. China quarterly, no. 126, June 1991: 269-289.
Examines "employment and earnings data from a sample data set, concentrating upon the reform years up to 1984."

Greenwald, Jeff. Kennedy, Kathi.
Made in China. Los Angeles times magazine, June 16, 1991: 10-12, 14-15, 34.
Examines the alleged use of prison labor in China to produce goods for export. Discusses the reaction in the United States to these allegations.

Griffith, Spencer S.
Dumping and China. China business review, v. 18, July-Aug. 1991: 34-36, 38.
"In the past 12 months, US companies have filed more dumping cases against China than against any other country. Even Japan, which in recent years has been the target of many US dumping charges, had less dumping cases filed against it--even though Japan's exports to the United States last year were seven times as much as China's."

Grout-Smith, Tim.
Profit and loess from China's silt. New scientist, v. 123, Sept. 9, 1989: 60-62.
"Rain and wind strip billions of tonnes of loess from northern China each year. An experimental network of orchards, dams and terraces has shown a way to prevent erosion and lethal flooding, and make money for farmers at the same time."

Grow, Roy F.
Resolving commercial disputes in China: foreign firms and the role of contract law. Northwestern journal of international law & business, v. 14, fall 1993: 161-183.
Examines the "tension between Chinese and foreign firms by focusing on several specific and limited questions having to do with actual practice: How do Chinese enterprises form contractual relationships with one another? How useful is China's relatively young and underdeveloped body of commercial law and precedent in resolving disputes between Chinese enterprises? How much can this body of law and regulation be relied upon by foreign firms who interact with Chinese enterprises?"

Guide to China's foreign economic relations and trade: import & export technology issue. Edited by the Ministry of Foreign Economic Relations and Trade, China, Policy Research and System Reform Department, Technology Import & Export Department. [Hong Kong], Economic Information & Agency, 1992. 437 p. HF3836.5 G85 1992
This work is in Chinese and English.

Gurtov, Mel.
Swords into market shares: China's conversion of military industry to civilian production. China quarterly, no. 134, June 1993: 213-241.
"This article traces and evaluates China's conversion of military industries since 1979, stressing its relationship to economic development planning."

Han, Guojian.
China to unify tax system. Beijing review, v. 36, June 21-27, 1993: 19-22.
"As the 'big pot' system of redistributing the nation's wealth becomes a thing of the past, a comprehensive system of taxation is emerging to replace it. Present reforms in China are bringing taxation more in line with international standards, and the Shenzhen Special Economic Zone is a premier example of the success of the tax reform program."

Han, Guojian.
ROK traders pour into China. Beijing review, v. 36, June 21-27, 1993: 23-25.
"After 40 years of silence, droves of business people from the Republic of Korea (ROK) have been drawn to the Chinese market. Experts predict that ROK is highly like[ly] to be one of China's three major economic partners, along with Japan and the United States, by the year 1995."

Han, Xiaoxing.
China-Middle East links. China business review, v. 21, Mar.-Apr. 1994: 44-49.
"China's commercial ties with the Middle East have grown tremendously, as have the variety of goods and services traded. While the region has emerged as a dependable trade partner, China has developed other business links with the Middle East as well, in areas such as construction and finance." Includes accompanying article by Alexander T. Lennon on Chinese arms exports.

Handke, Werner.
China is different: economic reform-democracy-opening. Aussenpolitik, v. 40, no. 2, 1989: 129-138.
"When the Chinese speak of democratization, it ought not to be measured with Western notions of democracy . . . . [The author] attempts to put the relevant concepts in order so that both the quality and the possible dimensions of the reforms under way in China can be assessed realistically. Democratization does not mean the Communist Party is relinquishing its leading role . . . . China's proclaimed opening is an opening for foreign technology and foreign capital, a package of measures and regulations, all of which serve the purpose of modernizing the economy."

Hanke, Steve H. Walters, Alan.
Ping pong peg. International economy, v. 7, July-Aug. 1993: 31-33, 62-63.
Suggests that China could ease its boom-bust cycle by pegging the RMB to the U.S. dollar.

Handke, Werner.
China euphoria--China criticism. Aussenpolitik, v. 41, no. 3, 1990: 268-279.
"Former consul general of the Federal Republic of Germany in Shanghai, sets out events in China comprehensible within the specific context of their evolution. The China euphoria turned into a China criticism almost overnight . . . . Zhao Ziyang . . . already spoke in autumn 1988 of the need to also use force during unrest. The Chinese government has taken the view that an opening in the economic and technological fields must be accompanied by the discipline of strict ideological leadership in order to prevent or counteract risks to the system.

Hao, Wang.
China's economic reforms in the 1980s and their consequences. Internationales asienforum, v. 25, May 1994: 99-126.
Says that "market-oriented economic policy changes and systemic reforms in the 1980s have been successful in terms of rapid economic growth . . . . The reforms of the 1980s failed to meet some basic requirements for bringing the economy into a sustained growth state because of the absence of effective industrial and environmental policies and fundamental institutional changes in the macro-management system as well."

Harding, Harry.

Beyond MFN: a comprehensive American policy toward China. Washington, National Bureau of Asian Research, 1994. 12 p.

Says that policymakers "need to identify our basic interests in China, determine whether withdrawing or modifying China's most-favored nation status would advance those interests, and formulate a sound long-term policy toward China. The basic conclusion of this paper is that changing China's most-favored-nation status will prove counterproductive, not only for our economic and security interests, but for our interest in human rights as well."

China's second revolution: reform after Mao. Washington, Brookings Institution, c1987. 369 p. HC427.92 .H37 1987

"A study produced in cooperation with the Council on Foreign Relations."

The emergence of greater China. American enterprise, v. 3, May-June 1992: 46-55.

"The economic integration of south China, Taiwan, and Hong Kong is proceeding rapidly and posing new challenges for U.S. policymakers--from the way we compile trade statistics to most-favored-nation status for China."

Harrington, Laurence P.

Recent amendments to China's patent law: the emperor's new clothes? Boston College international and comparative law review, v. 17, summer 1994: 337-374.

Note reviews China's 1984 Patent Law and the recent amendments to that law enacted in 1992.

Hartford, Kathleen.

Reform or retrofitting? The Chinese economy since Tiananmen. World policy journal, v. 9, winter 1991-92: 35-66.

"Many analysts contend that piecemeal reforms are accumulating, leading the way to a systemic transformation . . . . [Argues that] the reformed features have often been patched onto a basically unreformed set of institutions and economic structures inherited from the Stalinist-Maoist system; China has had retrofitting, but not systemic reform."

Heginbotham, Erland.

Asia's rising economic tide: unique opportunities for the U.S. Washington, National Planning Association, 1993. 138 p. (NPA no. 268)

"This study argues that the magnitude of current opportunities in East Asia is great enough to provide an important source of new, relatively high wage U.S. jobs and to stimulate U.S. economic recovery. The main obstacles to taking advantage of the 'engine of growth' are not the well-publicized and infamous Asian barriers to trade, substantial and frustrating as they may be. Surprisingly, the main villains are the lack of awareness and neglect of many major regional opportunities by U.S. businesses."

Pacific Basin: restoring U.S. economic leadership. Business economics, v. 29, Apr. 1994: 7-13.

Argues that, in East Asia, "infrastructure shortages and burgeoning consumerism are creating unique and unprecedented opportunities for many competitive U.S. sectors, while Japanese firms remain handicapped by a high yen and troubled financial conditions. With better supported export promotion, the U.S. can greatly reduce its Asian trade imbalances and reinvigorate its Pacific Basin economic leadership during the mid-1990s."

Heine, Irwin M.

China's rise to commercial maritime power. New York, Greenwood Press, 1989. 175 p. (Contributions in economics and economic history, 0084-9235; no. 87) HE894 .H45 1989

Henry, Donald Putnam.

MAGIC: models of aggregate growth in China. Santa Monica, Calif., Rand Corporation, 1991. 78 p. (Rand note N-2945-NA)

"Develops three small aggregate models of growth in China. Each of these models is designed to highlight different aspects of China's growth prospects. Model I is a simple capital accumulation model that calculates the rates of population growth, capital formation through savings, and technological progress necessary to meet the economic goals announced by the Chinese leadership. Model II examines the interactions between the rural and urban sectors of the Chinese economy. Model III examines the roles of foreign borrowing and the military sector in economic growth."

Herbal medicine. Far Eastern economic review, v. 156, Oct. 21, 1993: 36-41.

Contents.--East cures West: traditional herbs provide remedies for modern ills, by Anthony Blass.--Funding research: businessman supports clinical analysis of cures, by Frederik Balfour.

Herschede, Fred.

Trade between China and ASEAN: the impact of the Pacific Rim era. Pacific affairs, v. 64, summer 1991: 179-193.

"The purpose of this paper is to explore the reasons why Sino-ASEAN trade and economic integration have not become more important. The first part of the paper analyzes recent trends in foreign trade for these countries . . . . [Then it] will discuss some of the major impediments to improving trade flows and economic integration. The study will conclude by appraising the prospects for enhanced economic trade and integration over the next ten years."

Hickey, Dennis Van Vranken.

Peking's growing political, economic, and military ties with Latin America. Issues & studies, v. 25, June 1989: 113-131.

"Throughout the post-Mao era, Peking's relations with Latin America have grown substantially. This study will briefly outline the background of Peking-Latin American relations, explore several considerations which may help to explain Peking's heightened interest in the region, . . . and discuss the prospects for future Peking-Latin American relations."

Hickey, Dennis Van Vranken.

Will inter-China trade change Taiwan or the Mainland? Orbis, v. 35, fall 1991: 517-531.

"What has been driving this explosive growth in commerce? How is such trade affecting politics within the two countries, and how might it affect the political relations between them? Finally, how might the changing Chinese political-economic situation affect American policies toward the two counties? To answer these questions, one must begin by examining both the current state of inter-China economic exchange and the organizations established to cope with it."

Ho, David. Leigh, Nancy.

A retail revolution. China business review, v. 21, Jan.-Feb. 1994: 22-27.

Describes a Chinese government policy (June 1992) which "effectively welcomed broad-based foreign participation in the retail sector. The guidelines provide general policy rules for the accelerated development of those sectors other than agriculture, industry, and construction."

Hoenig, Thomas M.

China's economic growth with price stability: what role for the Central Bank? Federal Reserve Bank of Kansas City economic review, v. 78, no. 1, first quarter 1993: 5-10.

"This article discusses why the emerging market economy in China and the more highly developed market economy in the United States must, by definition, ultimately function in similar fashions. The Federal Reserve System has conducted monetary policy in a rapidly changing, geographically diverse market economy. This experience may provide useful guidance to the People's Bank of China as it must now also confront the challenge of sustaining economic growth through price stability."

Holton, Richard H. Sicular, Terry.

Moving toward markets: reform of the distribution sector in China. Cambridge, Mass., Harvard Institute of Economic Research, Harvard University, 1991. 11 p. (Discussion paper no. 1538)

Discusses "first the role of distribution in the economic development process, then the changes in China's goods distribution process since economic reform was instituted. Two cases are then examined, namely the distribution of TV sets and grain, to underscore successes and problems . . . . Conclude[s] with observations about an ideal distribution system for China."

Hong Kong Trade Development Council.
Unlocking the consumer market [in China]. China business review, v. 19, Nov.-Dec. 1992: 18-22, 24, 26-27.

"The door to China's domestic market is opening wider all the time. Future prospects for foreign companies are bright."

"This article was adapted and excerpted from the report China's Consumer Market, published by the Hong Kong Trade Development Council."

Hong Kong: window on Asia. Business America, v. 112, Nov. 18, 1991: 2-17.

"Hong Kong is open and ready for business, and virtually all American products can be sold there. A series of articles describe the large and varied marketing opportunities in Hong Kong; discuss the future of Hong Kong; describe the outlook for foreign investment there; and recommend Hong Kong as a base for selling to China and the rest of Asia."

Contents.--Hong Kong: good news for U.S. business, by Thomas Lee Boam.--Hong Kong: a window on China, by William A. Brekke.--Hong Kong's gateway to the future means good sales today for U.S. firms, by Henry Richmond.--The outlook for U.S. investment in Hong Kong, by Peter S. Gadzinski.--U.S. export licensing toward Hong Kong and future export control cooperation, by Bruce L. Cromack.

Hong, Ze. Ebanks, G. Edward.
Economic reform and population control in rural mainland China in the 1980s. Issues and studies, v. 28, Sept. 1992: 22-46.

"This article examines the difficult task faced by mainland China's leadership in implementing population control through household size restrictions in rural areas. Population control measures were put in place in the form of later minimum ages for marriage, fewer children allowed per couple in 1971, and the 'one child per family' policy in 1979. In that same year, rural economic reform was initiated. These two attempts at influencing rural development in mainland China fall into two periods: the first from 1973 to 1979 and the second from 1980 to the present. Changes since 1980, and particularly since 1984, are often negatively evaluated and have raised serious concerns about the future of mainland China's population control program."

Horsley, Jamie P.
Erecting a body of construction law in the People's Republic of China. Journal of Chinese law, v. 7, spring 1993: 35-61.

"This article is thus an attempt to provide a basic manual on the types of regulations and restrictions that foreign companies should be aware of when undertaking construction projects in China, either as owner-employers or as contractors. The local regulations of Beijing are discussed with particular frequency, since they are generally representative of regulations in force elsewhere in China. This article also illustrates the bifurcated development of China's economic legislation."

Hsu, Paul S. P.
Taiwan, Hong Kong, and China: the Chinese productivity triangle. International lawyer, v. 27, summer 1993: 523-532.

Article describes a "Chinese Productivity Triangle" that is integrating the economies of Taiwan, Hong Kong, and southern China. "The key to this success is the optimum combination of assets from all three areas: the technological capability and vast financial resources of Taiwan; the marketing, communications, and service strength of Hong Kong; and the abundant land, raw materials, and cheap labor of southern China."

Hu, Yuanxiang.
Legal and policy issues of the trade and economic relations between China and the EEC: a comparative study. Deventer; Boston, Kluwer Law and Taxation Publishers, 1991. 415 p. KJE5113 .H8 1991

Hua, Huang.
The market economy in China. Security dialogue, v. 24, June 1993: 175-179.

"The decision to develop a socialist market economy and establish a socialist market economy system was made recently at the 14th National Congress of the Community Party of China. This represents another important breakthrough in China's reform and opening to the outside world . . . . Over the past 14 years, China's reform has been proceeding basically with the market as its orientation."

Huang, Jin-ping.
Electricity consumption and economic growth: a case study of China. Energy policy, v. 21, June 1993: 717-720.

"This study examines the relationship between electricity consumption and economic growth in China during 1950-80. The results show that the income elasticity of electricity consumption is significantly greater than one ranging from 2.33 to 2.72, and the electricity--GDP ratio, or electricity intensity, has increased over time with the growth rate of 7.3% pa during 1950-80. These results suggest that the policy makers in China should pay more attention to electricity conservation policies and structural changes in production."

Hui, Saiman. McKowan, Hilary B.
China computers. China business review, v. 20, Sept.-Oct. 1993: 14-18, 20.

"By 1991, China had completely abandoned its course of self-reliance in computer production and entered a third phase of development. Instead of trying to manufacture all types of computer equipment on its own, China decided to import high-end equipment, including mainframes and minicomputers, while manufacturing low-end products."

Humble, Ronald D.
Science, technology and China's defence industrial base. Jane's intelligence review, v. 4, Jan. 1992: 3-11.

"China has thriving defence and space industries, and exports a variety of military systems . . . . These efforts are directly related to a military technological strategy . . . the modernisation of weapons systems, the modernisation of the defence industrial base, and an improved operational capability to employ new technologies."

Hyer, Eric.
China's arms merchants: profits in command. China quarterly, no. 132, December 1992: 1101-1118.

"Briefly reviews China's early arms transfers, then analyses the reasons and motives for the dramatic increase in sales during the 1980s . . . and, finally, examines some possible future trends."

Imai, Hiroyuki.
Inflationary pressure in China's consumption goods market: estimation and analysis. Developing economies, v. 32, June 1994: 127-154.

Examines the patterns of inflation in China over the last 35 years by developing an inflation-adjusted measure for China's consumption goods market.

International trade: U.S. government policy issues affecting U.S. business activities in China: report to the Chairman, Committee on Governmental Affairs, and the Honorable Joseph I. Lieberman, U.S. Senate. Washington, GAO [1994] 75 p.
HF3128 .I58 1994

Ishihara, Kyoichi.
Inflation and economic reform in China. Developing economies, v. 28, June 1990: 180-201.

Looks "into the relationship between inflation and economic reforms in China. Inflation in China in recent years has resulted from the compounded effects of three factors: demand-pull, cost-push, and money supply."

Issues and perspectives in economic integration in Asia. American Asian review, v. 11, winter 1993: whole issue (234 p.)

Partial contents.--Bank deposit insurance policies: an international overview and recommendations for Taiwan, by Thomas P. Chen & K. Thomas Liaw.--Impact on Asian economic integration on China, by Gale Summerfield.--China's outward-oriented economy and Asian regional economic integration, by Dongchuan Sun, Jiamo Shen, & Zhiming Xue.--Ethnic Chinese capital in market-led economic integration: the case of East Asia, by Yu-Min Chow.--Regionalization and ASEAN in a global economy, by Pang Eng Fona.--Mancur Olson's encompassing organization in South Korean economic development, by Young Back Choi.

It's already 1997 in Hong Kong. Economist, v. 329, Dec. 17, 1993: 36-38.

"The noisy row between Britain and China over political reform in Hong Kong has masked the much deeper changes already taking place in the territory. Well before the 1997 handover, Hong Kong is readying itself to become part of China."

Izdebski, Hubert.

Legal aspects of economic reforms in socialist countries. American journal of comparative law, v. 37, fall 1989: 703-752.

Jacobson, Jodi L.

Baby budget. World watch, v. 2, Sept.-Oct. 1989: 21-31.

"The one-child policy raises a fundamental conflict, one that more and more countries are now facing: the rights of this generation to reproduce against those of future generations to an ecologically intact world."

Jayawickrama, Nihal.

Hong Kong: the gathering storm. Bulletin of peace proposals, v. 22, June 1991: 157-174.

Jefferson, Gary H. Xu, Wenyi.

Assessing gains in efficient production among China's industrial enterprises. Economic development & cultural change, v. 42, Apr. 1994: 597-615.

"Using established theory and microlevel data, the article evaluates the progress of China's industrial enterprises toward satisfying one of the principal efficiency conditions of a competitive market economy, namely, the equalization of marginal revenue factor products across enterprises. The approach and resulting measures are of direct use in evaluating critical issues of reform strategy, including China's strategy of evolutionary reform."

Jia, Liqun.

Self-reliance, external assistance and technological change in China: a critical review. Asian economies, no. 73, June 1990: 5-40.

Asserts that in order to understand "the structure of industrial production, technological change and economic development in China, it is necessary to make a wider and closer examination of the function of self-reliance." Traces the theory of self-reliance in China and reviews its performance during the last four decades, including its influence on technological change.

Jones, Randall. King, Robert. Klein, Michael.

The Chinese economic area: economic integration without a free trade agreement. Paris, Organisation for Economic Co-operation and Development, 1992. 44 p. (Economics Department working paper no. 124)

"This paper describes the de facto economic integration taking place between China, Hong Kong and Taiwan--the 'Chinese Economic Area'--and analyses basic factors underlying the process. Even in the face of weak economic performance in OECD countries the integration has helped underpin rapid growth in all three economies, particularly in China's south-eastern provinces. If Chinese policies are further liberalised within a reasonably stable macro-environment, the Chinese Economic Area could become a major player in world markets within one generation and require massive adjustment in the rest of the world."

Kamal, Nasir.

China's arms export policy and responses to multilateral restraints. Contemporary Southeast Asia, v. 14, Sept. 1992: 112-141.

"Financial considerations played a salient role in China's arms export policy during the 1980s . . . . Meanwhile, China continues to resist Western schemes for general restraints on conventional arms transfers as well as proposals for transparency in arms trade. China's status as a major arms supplier has been declining in recent years, in comparison to the 1990s."

Kamath, Shyam J.

Foreign direct investment in a centrally planned developing economy: the Chinese case. Economic development and cultural change, v. 39, Oct. 1990: 107-130.

Reviews the progress of foreign direct investment and the special economic zones in the Chinese economy.

Kambara, Tatsu.

The energy situation in China. China quarterly, v. 131, Sept. 1992: 608-636.

"Energy and transport have long been considered the two main obstacles to Chinese economic development. This article examines to what extent economic stagnation has been caused by shortfalls in energy supplies and what can be done to alleviate the situation in the future." It also investigates two other factors: energy quality and environmental protection, both necessary to the creation and implementation of a national, integrated energy policy.

Kao, Jeffrey.
Phoning home. China business review, v. 19, July-Aug. 1992: 6-7, 9-10.
"For China expats, keeping in touch with the home office is getting easier all the time . . . . From 1988-92, a caller's chances of getting through to China on the first dial improved from 25 percent to more than 45 percent."

Kao, John.
The worldwide web of Chinese business. Harvard business review, v. 71, Mar.-Apr. 1993: 24-27, 30-34, 36.
"What Kao calls the 'Chinese commonwealth' is an unofficial network of entrepreneurs in Taiwan, Singapore, Hong Kong, the People's Republic of China, the United States, and beyond. Yet the Chinese commonwealth is now the world's fourth economic power."

Karp, Jonathan.
The new insiders. Far Eastern economic review, v. 156, May 27, 1993: 62-66.
Discusses a Hong Kong-based investment fund which includes firms owned by the Chinese government as well as Chinese investors throughout Southeast Asia.

Kelliher, Daniel Roy.
Peasant power in China: the era of rural reform, 1979-1989. New Haven, Yale University Press, c1992. 264 p. (Yale agrarian studies) HN740.Z9 C6388 1992

Kerzner, David S.
The commercial real estate laws of the People's Republic of China and Schenzhen: an overview. Vanderbilt journal of transnational law, v. 26, Oct. 1993: 581-631.
Partial contents.--Commercial real estate law in the People's Republic of China.--Changing real property rights in the 1980s.--Control of land use rights.--Acquisition of land use rights from the government.--Termination of land use rights.--National law of mortgage.--Foreign investment in real estate.

Keyuan, Zou.
China's Antarctic policy and the Antarctic Treaty System. Ocean development and international law, v. 24, July-Sept. 1993: 237-255.
"China began to express its interest in Antarctica in the early 1980s. China acceded to the Antarctic Treaty in 1983 and obtained consultative party status within the Antarctic Treaty System (ATS) two years later . . . . This article analyzes China's interests in and policy toward Antarctica as a whole by first discussing China's activities in Antarctica, its approaches to the Antarctic Treaty, and its role in the ATS and then exploring the future trend of China's Antarctic policy from political, economic, scientific, and environmental perspectives."

Kim, Seong-Ki.
Patent law of China. Korean journal of comparative law, v. 18, Dec. 1990: 90-113.
Article surveys the history of patent law in China, including current patent litigation procedures.

Kim, Won Bae.
Yellow Sea economic zone: vision or reality? Journal of Northeast Asian studies, v. 10, spring 1991: 35-55.
Reviews "Sino-South Korean economic relations in the 1980s, and discusses domestic and international factors that are likely to influence economic relations between the two countries in the 1990s. Two possible scenarios are discussed for future Sino-South Korean economic relations: increasing trade and economic interaction within limited political relations; active economic cooperation across the Yellow Sea with normalized relations."

Kingwell, Jeff.
The rise of the Asian space dragon. Space policy, v. 10, Aug. 1994: 185-186.
Notes that in Asia "an increasing number of countries--Taiwan and Korea as well as Japan, India and China--are developing healthy and productive (ie non-military) programmes. Moreover, they are now beginning to pool their expertise with a cooperative regional programme."

Kirschten, Dick.
Jilted. National journal, v. 26, Aug. 13, 1994: 1918-1922.
"The President's decision to de-link human rights concerns from his China trade policy has left the human rights lobby in a bit of disarray."

Kleinberg, Robert.
China's "opening" to the outside world: the experiment with foreign capitalism.
Boulder, Westview Press, 1990. 277 p. HC427.92 .K55 1990

Kong, Yan.
China's arms trade bureaucracy. Jane's intelligence review, v. 6, Feb. 1994: 80-83.
"This article attempts to establish the basis of Beijing's arms trade in general, and examine the equipment in particular . . . . China's arms trade is conducted through two networks: the defence industry; and the People's Liberation Army (PLA)."

Koo, Anthony Y. C.
The contract responsibility system: transition from a planned to a market economy.
Economic development and cultural change, v. 38, July 1990: 797-820.
Evaluates the campaign beginning in 1981 to extend the contract responsibility system (CRS) to China's medium and large industrial enterprises.

Kraar, Louis.
China: struggle for control. Fortune, v. 128, Nov. 1, 1993: 137-138, 140, 142.
"Racing to become an economic superpower, China has stumbled into near chaos. An unofficial new leader is trying to keep its economy from blowing up."

Now comes the hard part for China. Fortune, v. 128, July 26, 1993: 130-132, 134.
"Growth has been swift in recent years, but the country still has a very long way to go to become a first-class industrial power."

The risks are rising in China. Fortune, v. 131, Mar. 6, 1995: 179-180.
"Take an ailing patriarch, inflation, rampant corruption, and a culture that considers counterfeiting cool, and what have you got? A pile of potential problems."

Kuan, Hsin-chi.
Hong Kong after the basic law. Halifax, N.S., Institute for Research on Public Policy, [1990] 36 p. KNR171 .K83 1990

Kueh, Y. Y.
Agricultural instability in China, 1931-1990: weather, technology, and institutions.
Oxford, Oxford University Press; New York, Clarendon Press, 1994. (Studies in contemporary China)
This work should be available later in 1995.

Kwan, C. H. Sasaki, F.
The Asian economies. NRI quarterly economic review, v. 24, May 1994: 30-43.
Examines the economic prospects of South Korea, Taiwan, Hong Kong, China, and the six members of ASEAN.

Kwong, Tsz Man.
Markets and urban-rural inequality in China. Social science quarterly, v. 75, Dec. 1994: 820-837.
"Since 1979 markets have been reintroduced into China to improve the living standard of rural peasants. This research examines the functions of markets in affecting rural-urban income inequality in China. Official data published by China's State Statistical Bureau are used to study the impact of markets on rural-urban income differences on 29 administrative regions. The results indicate that markets reduce income gap between rural and urban sectors in China by reestablishing the horizonal linkage between food producers and food consumers. However, markets function less on the production process to narrow the urban-rural income gap. Rural industrialization is also found to have a major impact on the change in rural livelihood."

Lampton, David M.

America's China policy in the age of the finance minister: Clinton ends linkage. China quarterly, no. 139, Sept. 1994: 597-621.

Explains the Clinton Administration policy announced May 26, 1994 which "delinked" trade relations from China's human rights policy.

Lardy, Nicholas R.

China in the world economy. Washington, Institute for International Economics, 1994. 158 p. HC427.92 .L37 1994

———

Chinese foreign trade. China quarterly, v. 131, Sept. 1992: 691-720.

Claims that "from roughly the mid-1980s onward the pace of domestic economic reforms accelerated, making it more likely that increased foreign trade would be economically beneficial. That forms the basis of the prediction that China's foreign trade will probably expand considerably in the 1990s and play an even more positive role in contributing to economic growth."

———

MFN denial: the economic consequences. Washington, National Bureau of Asian Research, 1994. 9 p.

Says the U.S. "should offer to continue to extend MFN status, on an annual basis, and to apply the 10-year phaseout of the Multifiber Agreement in exchange for maximal reductions of tariffs and nontariff barriers by the Chinese in the final package negotiated on China's participation in the GATT . . . Second, the United States should agree to provide China permanent MFN status as soon as it is evident that China is in compliance with the protocol governing its participation in the GATT as well as other bilateral economic agreements with the United States."

Latimer, Matthew D.

Gilding the iron rice bowl: the illusion of shareholder rights in China. Washington law review, v. 69, Oct. 194: 1097-1119.

"Comment examines the rights available to outside shareholders under China's current regulatory framework, as well as the methods and procedures currently in place to enforce those rights. Specifically, this Comment addresses three significant areas of potential concern: the ability of shareholders to oversee management decision-making through voting power, the ability of investors to obtain adequate redress from fraudulent conduct in the marketplace, and the feasibility of private stock ownership in a socialist system."

Lau, Paul C. Auster, Rolf.

New China tax laws address foreign investors. International tax journal, v. 19, summer 1993: 43-53.

"In October 1992, the world's last major communist power, the People's Republic of China (PRC), officially adopted a western-style market economy. Attracting foreign investments to the PRC has become a major goal as it moves toward a market economy. To stimulate such foreign investments, the National People's Congress enacted 'The Income Tax Law of the Republic of China Concerning Enterprises With Foreign Investment and Foreign Enterprises' (Income Tax Law). The new law became effective on July 1, 1991."

Lawrence, Susan V.

Pointing the way. U.S. news & world report, v. 113, Aug. 3, 1992: 36-39.

Discusses Deng Xiaoping's efforts to extend economic reforms to China's backward interior.

Lee, Dinah.

China's ugly export secret: prison labor. Business week, no. 3210, Apr. 22, 1991: 42-43, 46.

"China's trade officials are crafting a secret policy to use labor from its camps and prisons to manufacture exports specifically for the U.S., Germany, and Japan. China is desperate for hard currency. The booming coastal provinces, where marketing and production skills are highest and joint ventures abound, are being promoted as the showcases for successful prison exports." Related articles discusses charges by American publishers that the Chinese government has become one of the largest of the world's software pirates.

Lee, Keun. Lee, Chung H. Kim, Won Bae.
Problems and profitability of direct foreign investment in China: an analysis of the survey data. Journal of northeast Asian studies, v. 9, winter 1990: 36-52.

"By analyzing a survey in the Tianjin area, this article investigates the problems and profitability of joint ventures in China, and draws some policy implications. The authors find that there are a number of systemic constraints on the profitability of joint ventures, such as input and foreign exchange shortages, rigid labor policies, conflicts between business partners, and uneasy relations with state authorities. The article concludes that unless the investment environment is improved. China will not succeed in the competition with other developing countries in attracting the foreign capital needed for its modernization."

Lee, Peter.
Why China is such a mess. Euromoney, Feb. 1995: 37-40, 42.

"The China story's latest chapter is one of muddle and suspicion. The state is in danger of losing its investment-grade rating. Western firms are owed billions of dollars in bad debts. Chinese companies have gained a name for shady dealing. What's gone wrong?"

Lenssen, Nicholas.
All the coal in China. World watch, v. 6, Mar.-Apr. 1993: 22-29.

"Unless this giant nation embraces a new strategy for producing and using energy, its fast-growing economy could overwhelm international efforts to control greenhouse warming."

Lewis, John W. Di, Hua. Litai, Xue.
Beijing's defense establishment: solving the arms-export enigma. International security, v. 15, spring 1991: 87-109.

"The growing possibilities for regional conflicts increase the potential arms market . . . . U.S. ignorance of how and why China exports weapons has hampered efforts to bring the PRC into an arms-export control regime."

Li, He.
Sino-Latin American economic relations. New York, Praeger, 1991. 179 p.
HF1604.Z4 L295 1991

Li, Hua-hsia.
Communist China's opening to the outside world: a trade structure perspective. [Taipei, Taiwan] World Anti-Communist League, China Chapter, Asian Pacific Anti-Communist League, Republic of China [1987] 54 p. (Pamphlet / World Anti-Communist League, China Chapter; 33, 307) HF1604 .L5 1987

Li, Lillian M.
China's silk trade: traditional industry in the modern world, 1842-1937. Cambridge, Mass., Council on East Asian Studies, Harvard University. Distributed by Harvard University Press, 1981. 288 p. (Harvard East Asian monographs; 97)
HD9926.C62 L4 1981

Li, Rongxia.
Free trade zone in China. Beijing review, v. 36, Aug. 2-8, 1993: 14-21.,

"Since 1990, China has opened 13 bonded zones in coastal cities and cities along the Yangtze River, including Shanghai, Tianjin, Shenzhen and Xiamen. The establishment of bonded zones, which have many of the features of free ports, marks the implementation of Deng Xiaoping's ideas of 'building more Hong Kongs.'" Includes a companion article on the fledgling free trade zone in Tianjin.

Li, Shuangyuan. Hu, Zhenjie.
Socialist market economy and the perfection and development of private international law in China. Social sciences in China, v. 15, summer 1994: 32-43.

Says that the development of private international law (PIL) formalizing property and personal relationships was ignored in China for many years. Claims that "practicing a socialist market economy and rejoining GATT will have a far-reaching effect upon the PIL of China."

Li, Wen Lang.
Migration, urbanization, and regional development: toward a state theory of urban growth in mainland China. Issues and studies, v. 28, Feb. 1992: 84-102.
"This paper examines the dynamic changes in mainland China's migration and urbanization patterns over the last forty years." Includes discussion of Maoist experiments with the regional population redistribution.

Li, Xuejun.
Enterprise management in the People's Republic of China: development and issues. Asian economies, no. 79, Dec. 1991: 20-39.
Discusses enterprise management reform in China, focusing on the contract responsibility system (CRS). "Under the system, factory directors (managers) and employees of state-owned enterprises contract certain production tasks from the State and, apart from tax payments, turn over a portion of profits to it specified in advance; but all profits above the specified quota are kept by the enterprises to use as expansion funds, collective welfare funds and bonuses."

Li, Yuanchao.
Enterprise groups in China: the present situation and development trends. Social sciences in China, v. 13, June 1992: 5-15.
"Chinese enterprise groups are a kind of economic organization with multi-layered structure designed to meet the needs of the socialist planned commodity economy and the objective requirements of socialized mass production. By the end of 1989, there were already 15 enterprise groups as independent units for allocation and distribution of materials and funds under the State Plan and another 630 more had been approved by the city and provincial governments and registered at the Chinese Administration of Industry and Commerce."

Ligon, Paul.
Economic reforms, waste generation and recycling in Beijing China. Resource recycling, v. 13, June 1994: 49-52.
"Economic advances in the New China are affecting recycling and waste generation."

Lilley, Charles R.
Economic reforms, waste generation and recycling in Beijing China. Resource recycling, v. 13, June 1994: 49-52.

Lin, Chong-Pin.
The coming Chinese earthquake. International economy, v. 6, May-June 1992: 50-57.
Describes the major factors in China's post-Tiananmen economic recovery, but also points to inflationary trends and budget deficits that could derail the economy. Also points to an escalation of leadership infighting, social unrest, rising corruption, the role of the army, and rising regional autonomy as negative factors.

Lin, Cyril.
China's economy: the aspirations and the reality. World today, v. 45, Jan. 1989: 4-7.
Describes the success of recent efforts to modernize China's economy, culminating in the October 1988 decision to temporarily halt the economic reforms. Claims that "the historical-nationalistic imperative in China to modernise and to reclaim what it sees as its rightful place among the most advanced nations is so great" that economic reforms will continue.

Lin, Lianlian. Allison, John R.
An analysis of expropriation and nationalization risk in China. Yale journal of international law, v. 19, winter 1994: 135-186.
Article explores the risk, to foreign investors in China, of nationalization and expropriation without just compensation. Concludes that "in light of the remaining ambiguity about China's intentions, expropriation-related risks remain meaningful , even it not great. Nevertheless, the assessments of American investors, based as they are on political rhetoric over tensions between West and East and between developed and developing nations, overestimate these risks."

Lippit, Victor D.
The economic development of China. Armonk, N.Y., M.E. Sharpe, c1987. 269 p.
HC427 .L486 1987

Liu, Alan P. L.
Communications and development in post-Mao Mainland China. Issues & studies, v. 27, Dec. 1991: 73-99.

Concludes that "the rise of freer communications since 1980 is dissolving the artificial nationhood created by Communist Party propaganda, while voluntary communications, transactions, and associations are providing new building blocks for a genuine and substantive nationalism in mainland China. The emergence of the new nationhood, however, is hindered by political reactions from top Party leaders and a host of communication perversions in society."

Economic reform, mobility strategies, and national integration in China. Asian survey, v. 31, May 1991: 393-408.

Claims that "the rise in the physical mobility of rural Chinese has affected more people and its impact on society is just as significant" as the recent movement for intellectual freedom. Examines mobility patterns in various provinces since 1980 and looks at the effects on China's development and national integration.

Liu, Lillian.
Social security for State-sector workers in the People's Republic of China: the reform decade and beyond. Social security bulletin, v. 54, Oct. 1991: 2-16.

Deals only with the urban sector. "A decade of policy changes and experiments in social security and in enterprise and labor force reforms, [and] serious problems in funding and administering these programs" have raised urgent issues for the central government.

Liu, William.
Implications of foreign exchange control in post-Mao economy. China report, v. 24, Oct.-Dec. 1988: 419-462.

Lu, Yingzhong.
Fueling one billion: an insider's story of Chinese energy policy development. Washington, Washington Institute Press, 1993. 266 p.

"What is the energy situation and energy policy in China? How long can China afford to meet the energy needs of its one billion people and its fast-growing economy on a self-reliant basis? How much energy will China need in the next decades? Will China continue to export oil or become another greedy buyer in the world oil market? Is it possible for China to reduce its CO2 emissions, and to what extent can its coal-predominat energy structure be improved? This book is an attempt to answer these questions. In addition, it is a summary of China's experiences in developing and pursuing a consistent, scientific energy policy during the past decade of economic reform."

Ma, Rong.
The development of the small town and China's modernization. Social sciences in China, v. 12, Mar. 1991: 90-113.

"The present paper proposes to look into the small town's development in recent years. Taking into consideration the changes that have occurred in the small town's economic structure, communal function and other aspects, it explores the significance of its growth to China's urbanization and industrialization."

Ma, Shu-Yun.
The Shenzhen foreign exchange regulation centre. Royal Bank of Scotland review, no. 164, Dec. 1989: 34-43.

"The Shenzhen Special Economic Zone is, potentially, an important development for Chinese international relations, providing as it does the best (if still imperfect) way of coping with the problems of foreign exchange imbalance when dealing with an inconvertible currency."

Malenbaum, Wilfred.
A gloomy portrayal of development achievements and prospects: China and India. Economic development and cultural change, v. 38, Jan. 1990: 391-406.

Mann, Jim.
Beijing Jeep: the short, unhappy romance of American business in China. New York, Simon and Schuster, c1989. 333 p. HD9710.U54 A6574 1989

Manning, Robert A.

Starting over: from MFN to a China policy for the future. Washington, Progressive Policy Institute, 1994. 21 p. (Policy report no. 20, May 1994)

"Linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear nonproliferation, regional security, market-oriented economic ties and democratic change within China itself . . . . In the report, Manning proposes alternatives to the MFN lever, which he argues is 'simply too blunt an instrument' to define our relationship with the world's most populous nation."

Market-oriented policies for the development of Hainan: executive summary. Santa Monica, Calif., Rand Corporation, 1992. 29 p.

"This report summarizes and integrates four RAND Notes prepared for the National Research Center for Science and Technology for Development (NRCSTD) and the government of Hainan province, in accord with RAND's memorandum of agreement with NRCSTD and China's Ministry of Foreign Economic Relations and Trade. The Notes are Restructuring Hainan's International Trade and Finance: Currency, Foreign Exchange, and Trade, Charles Wolf, Jr., N-3292-NRCSTD, 1991; Restructuring Hainan's Fiscal System, Donald Putnam Henry, N-3293-NRCSTD, 1991; The Lessons of East Asian Development and Alternative Development Strategies for Hainan, K.C. Yeh, N-3294-NRCSTD, 1991; and A Comparison of Hainan with the Other Special Economic Zones, Charles Robert Roll, Jr., N-3295-NRCSTD, 1991."

Martin, Keith.

China and Central Asia: between seduction and suspicion. RFE/RL research report, v. 3, June 24, 1994: 26-36.

"Collapse of the Soviet Union has forced the newly independent states of Central Asia to evaluate their geopolitical environment carefully. While their relationship with China is important to them economically and politically, this relationship is also of immense importance to China, because of its security requirements . . . . The potential for greatly expanded trade between China and its Central Asian neighbors."

Martinez, Doug.

China faces challenges in reshaping its agricultural economy. Farmline, v. 14, Dec. 1992-Jan. 1993: 4-7.

"The 1990's could well be the decade in which China begins to realize the kind of economic success enjoyed by Hong Kong, South Korea, Taiwan, and Singapore. The reforms needed for rapid economic growth have apparently taken root--but China will have to rely on trade and a market orientation to ensure prosperity."

Massey, Joseph.

301: the successful resolution [between China and the U.S.]. China business review, v. 19, Nov.-Dec. 1992: 9-11.

"The Memorandum of Understanding (MOU) on the 301 market access signed between the U.S. and China on Oct. 10, 1992, is cause for cautious celebration. The 301 market access negotiations covered four basic areas: transparency of trade-related rules and regulations, import bans and quotas, the import licensing system, and technical barriers to trade. The MOU's most fundamental achievement in terms of opening China's market falls in the transparency area."

McCormick, Thomas J.

China market: America's quest for informal empire, 1893-1901. Chicago, I.R. Dee, 1990. 241 p. HF3120 .M28 1990

Reprint of the work originally published by Quadrangle Books in 1967.

McKinnon, Ronald I.

Gradual versus rapid liberalization in socialist economies: financial policies in China and Russia compared. San Francisco, Institute for Contemporary Studies, c1994. 44 p. (International Center for Economic Growth. ICEG sector studies series no. 10)

"An International Center for Economic Growth publication"

Melvin, Sheila.

China's entrepreneurs: keeping the faith after Tiananmen. Freeman, v. 41, Oct. 1991: 380-386.

"For much of the 1980s, the winds in China were good. Deng Xiaoping came to power and declared that 'to get rich is glorious.' Then in June 1989, the winds changed direction. How the 23 million men and women engaged in private business in

China have fared in the face of these shifting winds can be gauged through the experiences of a sampling of entrepreneurs and non-state sector employees from across the country."

Meng, Xianfan.
Chinese rural women in the transfer of the rural labor force. Social sciences in China, v. 15, spring 1994: 109-118.
Examines the opportunities for women in the transfer of the rural labor force away from agriculture.

Miller, H. Lyman.
Holding the Deng line. China business review, v. 20, Jan.-Feb. 1993: 22-24, 26-29, 311.
At China's 14th Party Congress the Communist Party "gave its stamp of approval to market economics as the catalyst of China's future prosperity." Article includes pictures and biographies of seven politburo members.

Miurin, Paolo. Sommariva, Andrea.
The financial reforms in Central and Eastern European countries and in China. Journal of banking and finance, v. 17, Sept. 1993: 883-911.
Reviews "the problems of the transition of financial systems from a centrally planned economy to a market one . . . . review[s] the financial reforms in CEE [Central and Eastern Europe] countries and China both at the central banking and commercial banking levels."

Moga, Thomas Traian.
Recent intellectual property developments in Japan, Taiwan, and China. University of Detroit Mercy law review, v. 70, winter 1993: 313-326.

Morino, Tomoso.
China-Japan trade and investment relations. In The China challenge: American policies in East Asia. New York, Academy of Political Science, 1991. p. 87-94. (Proceedings of the Academy of Political Science, v. 38, no. 2, 1991)
"In general, the two-way trade between China and Japan is expanding quickly. But the trade volume fluctuates from time to time because of conditions in the Chinese economy. The trade of the two countries has an optimistic future so long as Japanese companies continue to be flexible in coping with Chinese demand."

Mosher, Stacy.
Hong Kong straight talk: Britain toughens stance on colony's future. Far Eastern economic review, v. 155, July 2, 1992: 19.
"Britain's objection to a Chinese 'warning' about appointments to the colony's executive Council (Exco), or de facto cabinet, is the strongest indication yet that London has taken a new stance in its Hong Kong policy. The move came less than a month before the arrival of the colony's new governor, Chris Patten, but the sudden increase in tension appears to be only obliquely related to the change of governor."

Mosher, Steven W.
Chinese prison labor. Society, v. 29, Nov.-Dec. 1991: 49-59.
Describes the Laogai system of labor reform and labor re-education camps in China, a "system that seeks to bring all Chinese under the control of government autocracy."

"Made in the Chinese Laogai": China's use of prisoners to produce for export. Montclair, Calif., Asian Studies Center, Claremont Institute, 1990. 34 p.
"Testimony submitted to the Foreign Relations Committee of the U.S. Senate on June 6, 1990."

Most favored nation status for China: pro and con. International economy, v. 4, Aug.-Sept. 1990: 62-67.
Contents.--The Chinese puzzle, by Nancy Pelosi.--The U.S.-China balancing act, by R. K. Morris.

Murray, Brian.

Red army swords and free market ploughshares. Journal of Northeast Asian studies, v. 10, summer 1991: 26-52.

Reviews "the record of military reform, demobilization, and conversion in the Chinese and Soviet militaries. As the Chinese experience has been relatively successful and the two states have similar military systems, lessons are drawn from the Chinese experience and applied to the current debate on the progress of military reform in the Soviet Union."

Mushkat, Miron.

Shanghai as an outlet for foreign investment. Asian economies, no. 77, June 1991: 5-51.

Presents an economic and social profile of Shanghai.

Naughton, Barry.

Chinese institutional innovation and privatization from below. American economic review, v. 84, May 1994: 266-275.

Says that "China presents the unusual picture of an economy that has made a transition to a primarily market economy, but in which publicly owned enterprises still produce the bulk of manufacturing output." Describes the role played by rural township and village enterprises (TVEs). Includes accompanying article by Thomas G. Rawski on Chinese industrial reform.

The economy emerges from a rough patch. Current history, v. 90, Sept. 1991: 259-263.

Describes recent economic trends in China, focusing on the resumption of moderate growth following the 1989-90 recession. Says that "the policy of propping up [state-owned] factories retarded the gradual conversion to a market-oriented economy. While the current leadership looks more favorably on further economic reforms, it remains an open question whether it is prepared to take the risks associated with them."

Inflation and economic reform in China. Current history, v. 88, Sept. 1989: 269-272, 289-291.

"Inflation began to accelerate at the end of 1987, and by mid-1988 it was raging out of control . . . . The result was profound discontent, which provoked a change in political leadership, a mood of popular restiveness that fed the protests of spring, 1989, and a fundamental change in China's economic reform strategy."

Nestor, Deborah Vaughn. Pasurka, Carl A.

International trade in environmental protection equipment: an assessment of existing data. Washington, U.S. Environmental Protection Agency, Office of Policy Planning and Evaluation, 1993. ca. 58 p. in various pagings

"EPA 230-R-93-006, July 1993"

"This study estimates total U.S. imports, exports, and trade balances for environmental protection (EP) equipment between 1980-1991. The levels of trade in EP equipment are disaggregated by environmental medium (i.e., air, water, and other). . . . describes trade in pollution abatement equipment from the perspective of selected U.S. trading partners."

Newman, William Herman.

Birth of a successful joint venture. Lanham, University Press of America, c1992. 153 p. HD9660.C43 C56 1992

Presents research on the case study of "the creation of Nantong Cellulose Fibers Company by Jiangsu Tobacco Company, of China National Tobacco Corporation and Celanese Fibers Operations, a subsidiary of Hoechst/Celanese Corp." It is "based on a joint study by Graduate School of Business, Columbia University of New York and Faculty of International Business Management, University of International Business and Economics (Beijing)."

Ning, Shao.

Development and reform: China's agriculture in the 1990s. Social sciences in China, v. 13, June 1992: 16-22.

Contents.--Trends in China's agricultural development in the 1980s.--The stages of agricultural development in China and its internal requirements.--Existing problems in the rural reform and in agricultural development.--Development and reform of Chinese agriculture in the 1990s.

Niou, Emerson M. S. Ordeshook, Peter C. Tan, Guofu.
Taiwanese investment in Mainland China as a policy tool. Issues and studies, v. 28, Aug. 1992: 14-31.
"Can Taiwan use its financial leverage to induce the mainland to allow greater participation by Taiwan in international organizations, or will the mainland treat investment and Taiwan's international standing as separate issues? . . . address[es] the issue of how Taiwan should try to structure its negotiations with Peking (Beijing) in the event that it decides that investment can influence Peking's policies toward Taiwan."

Nolan, Peter.
The China puzzle: "Touching stones to cross the river." Challenge, v. 37, Jan.-Feb. 1994: 25-31.
"Why did China perform so well in the first decade and a half of reform, despite the fact that its economic institutions and policies were gravely inadequate in relation to mainstream Western economic theory and policy? China adopted an incremental reform path ('touching stones to cross the river')."

Norton, Rob.
Clinton's high-risk trade tactics. Fortune, v. 129, May 16, 1994: 73-74.
"The Administration has opted for an in-your-face approach to China and Japan. So far it has produced little but the threat of trade wars."

Ogden, Suzanne.
The Chinese communist party: key to pluralism and a market economy? SAIS review, v. 13, summer-fall 1993: 107-125.
Examines China's communist party operations and considers efforts directed toward economic modernization.

Ono, Shuichi.
Sino-Japanese economic relationships: trade, direct investment, and future strategy. Washington, World Bank, c1992. 70 p. (World Bank discussion papers, 0259-210X; 146. China and Mongolia Department series) HF1604.Z4 J3666 1992

Opening new doors: a business survey in the People's Republic of China: a study-report of the China project team. By Slawomir J. Magala and others. Delft, Netherlands, Eburon Publishers, 1992. 253 p. HC427.92 .O64 1992

Orentlicher, Diane F. Gelatt, Timothy A.
Public law, private actors: the impact of human rights on business investors in China. Northwestern journal of international law & business, v. 14, fall 1993: 66-129.
Article argues that "businesses that may or do invest in China bear a responsibility to ensure that their actions do not, however inadvertently, contribute to the systematic denial of human rights in the PRC."

Overholt, William H.
The emergence of Chinese capital markets. Asian survey, v. 31, May 1991: 409-421.
Describes the emergence of China's bond markets, the expansion of foreign exchange markets, its experiment with futures markets, and development of the stock market.

The rise of China: how economic reform is creating a new superpower. New YOrk, W. W. Norton, c1993. 431 p. HC427.92 O93 1993

Owen, A. D. Neal, Penelope N.
China's potential as an energy exporter. Energy policy, v. 17, Oct. 1989: 485-500.
"Growth of China's economy has been severely handicapped by serious domestic energy shortages. However, its requirement for foreign exchange to purchase essential Western technology necessitates the export of energy minerals, thus exacerbating the domestic situation . . . . This paper reviews the prospects for China's exports of crude oil and coal to the turn of the century and, in addition, reviews the potential export status of the fledgling natural gas and uranium industries."

Palmeter, N. David.
The impact of the U.S. antidumping law on China-U.S. trade. Journal of world trade, v. 23, Aug. 1989: 5-14.

"Trade between China and the United States is growing rapidly. In 1988, bilateral trade between the two countries exceeded $13 billion, more than double the $6 billion total for 1984. Moreover, the U.S. important component of this total increased at an even greater rate, nearly tripling to more than $8 billion in 1988 from $3 billion in 1984. Thus, it is tempting to say that the impact of the U.S. antidumping law on China-U.S. trade has not been very significant. But it would be a mistake to yield too quickly to this temptation, for, even though the antidumping law has not had a significant impact on overall levels of trade, it has had a very significant impact in specific sectors."

Panagariya, Arvind.
Unravelling the mysteries of China's foreign trade regime. World economy, v. 16, Jan. 1993: 51-68.

Discusses "trade policy reforms undertaken by China during 1978-90 and describes the country's trade policy regime at the end of that period. Special attention is paid to the implementation of national trade policies at provincial and city levels."

Pearson, Margaret M.
Breaking the bonds of "organized dependence": managers in China's foreign sector. Studies in comparative communism, v. 25, Mar. 1992: 57-77.

"Chinese managers working in foreign-invested businesses exhibit an extraordinary degree of independence from the post-revolutionary authority structures found in state enterprises. These 'foreign sector managers' have broken the bonds of organized dependence found in the state sector."

Peebles, Gavin.
Explaining macroeconomic imbalances in mainland China under reform. Issues & studies, v. 26, Oct. 1990: 65-83.

Examines the macroeconomic imbalances in China between 1978 and 1988 that brought about high inflation, large budget deficits, and trade deficits. Focuses on an index of excess demand in the consumer goods market called Purchasing Power Imbalance (PPI).

Perkins, Dwight.
Completing China's move to the market. Journal of economic perspectives, v. 8, spring 1994: 23-46.

Reviews recent growth patterns in the Chinese economy and the various reforms which made growth possible. Says that by luck alone "China stumbled on a strategy that has proved remarkably successful in moving the economy from a Soviet-style command system to what by the early 1990s was an economy governed in large part by market forces."

Human rights and the annual debate over MFN for China. Washington, National Bureau of Asian Research, 1994. 8 p.

"The annual ritual of debate over renewal of Most Favored Nation trade treatment for China."

Png, Margaret L. H.
Equity joint ventures in the People's Republic of China: problems that continue after more than a decade under the open door policy. Journal of international law, v. 24, summer 1992: 589-629.

Article discusses "the problems commonly encountered by foreign investors operating in China who are participants in equity joint ventures."

Pomfret, John.
Chinese army now major U.S. arms merchant. Washington post, Mar. 4, 1993: A1, A18.

"Acting aggressively on a decision by the Bush administration to allow Chinese arms imports, Beijing's army already has become the largest foreign supplier of small arms to the American market."

Prybyla, Jan.
China's economic dynamos. Current history, v. 91, Sept. 1992: 262-267.
Examines the growth of foreign investment in China, focusing on the special economic zones.

Rafferty, Kevin.
China's grasp and Hong Kong's golden eggs. Harvard business review, v. 69, May-June 1991: 54-56, 60, 62-63, 66, 68-69.
"With sovereignty in 1997, China may drive away the entrepreneurs who made Hong Kong an economic powerhouse."

Rasin, Steve.
Off and running: growth in China's textile production will continue to outpace that of the rest of the economy. China business review, v. 18, Sept.-Oct. 1991: 34-38, 40-44.
Describes the revitalization of China's textile industry which grew 18% annually during the past decade. Includes accompanying article by James L. Kenworthy (U.S.-China Textile Relations).

Rimmer, Peter J.
Hong Kong's future as a regional transport hub. Canberra, Australia, Strategic and Defense Studies Centre, Australian National University, 1992. 110 p.
Asks if after "reversion of Hong Kong to China in 1997, will the port maintain its commanding position in the worldwide operation, ownership and management of container shipping; will its airport remain as a major focal point in the global aviation network linking East Asia with the North American and European economic blocks .... Above all, how will its Port and Airport Development Strategy (PADS) affect economic and political relations between Hong Kong and China?"

Ronnas, Per.
Economic diversification and growth in rural China: the anatomy of a 'Socialist' success story. Journal of communist studies, v. 9, Sept. 1993: 216-244.
Finds that "a number of policy- and institutionally-determined factors combined to create a unique and highly conducive setting for the economic development process prompted by the reforms. The growth process was triggered by a huge boost in demand originating in sharp increases in agricultural incomes in the wake of the reforms. This demand-led growth was kept in motion by gains in productivity and income derived from the restructuring of the rural economy."

Ross, Lester.
The politics of environmental policy in the People's Republic of China. Policy studies journal, v. 20, winter 1992: 628-642.
"The People's Republic of China (PRC) has made substantial progress in developing environmental legislation and a complementary regulatory structure. These gains are directly related to the economic reforms and opening to the outside world that began in the 1970s, which introduced a greater emphasis on efficiency and more awareness of the costs associated with pollution and environmental degradation. However, the economic growth and devolution of power unleashed by the reforms have also created new environmental stresses and to some extent reduced the regulatory capability of governmental authorities .... International pressure on the PRC to conform its conduct to international environmental norms is likely to increase, which is likely to affect domestic policymaking."

Ross, Stan.
China: the next frontier. Urban land, v. 54, Jan. 1995: 29-33.
"The world's fastest growing economy and a strong real estate market presents a multitude of risks and opportunities for U.S. developers."

Roy, Denny.
Consequences of China's economic growth for Asia-Pacific security. Security dialogue, v. 24, June 1993: 181-191.
"This article argues that a stronger China is more likely to increase political tensions in the Asia-Pacific region than decrease them."

Sah, Edward K.
The plight of state-run enterprises in mainland China. Issues & studies, v. 27, July 1991: 112-116.

Although "large and medium-sized state-run enterprises are the important pillars" of the Chinese economy, "the government does not pay enough attention to enterprise management. Usually, it only cares about enterprises' output value and the profits they can deliver to the government."

Sang, Bin Xue.
Pudong: another special economic zone in China?--An analysis of the special regulations and policy for Shanghai's Pudong New Area. Northwestern journal of international law & business, v. 14, fall 1993: 130-160.

Article provides an overview of the Shanghai and Pudong New Area where the central government and local authorities have instituted policies formerly only available in special economic zones.

Savas, E. S.
Privatization in post-socialist countries. Public administration review, v. 52, Nov.-Dec. 1992: 573-581.

Describes "the wide range of privatizing strategies and some of the key problems that have emerged. Particular attention is paid to issues surrounding the determination of ownership, the valuation of state owned enterprises, how to 'sell' the businesses, and the attitudes of many who have had limited contact with competitive market forces."

Schell, Orville. Lappin, Todd.
China plays the market. Nation, v. 255, Dec. 14, 1992: 727-743 passim (15 p.)

Discusses the factors behind the opening of the Shanghai Securities Exchange, China's first national computerized stock exchange. Says that "the chaotic development of China's stock market is also a warning that future upheaval may not begin in Beijing but in the provinces, where the extraordinary growth of the market is creating patterns of regional power that can be highly centrifugal."

Schipper, Lee.
Energy efficiency: lessons for the past and strategies for the future. In Proceedings of the World Bank Annual Conference on Development Economics, 1993. Washington, World Bank, 1994. p. 397-439.

"In the next century, strategies to encourage energy efficiency could moderate environmental problems while saving energy, in spite of the enormous potential for growth in the world demand for energy. After describing the energy problem, this paper reviews trends in energy use and energy intensities in the 1970s and 1980s in the industrial countries, the former planned economies of Eastern Europe and the U.S.S.R., and the developing countries. Lessons from those years are used to frame policies that could improve levels of efficiency in all these countries. Estimates of future prospects for more efficient energy use in the year 2010 under various scenarios show the possibilities for further improvement." Includes a commentary by James L. Sweeney.

Schlosstein, Steven.
Kung-Fu con job. International economy, v. 7, Jan.-Feb. 1993: 35-39.

Rejects the conventional wisdom which "holds that China will be this century's next economic miracle, or that Beijing's political 'reforms' will succeed where Moscow's failed, or that China will be Asia's next Japan. It also suggests that China is too large a country to ignore, and that Beijing's leaders can't be pressured too hard for fear of losing face, and that China is about to be engulfed by a tidal wave of entrepreneurial energy."

Schroeder, Paul.
Rebuilding China's securities markets. China business review, v. 18, May-June 1991: 20-23, 26, 28-34, 36.

Describes the rebirth of securities markets in China which has presented Communist leaders with numerous ideological problems related to ownership of the means of production and the legitimacy of profit making. Accompanying articles by Fred Burke, Mary Riley, and Hang Chang describe the Shanghai Stock Exchange and the Zhengzhou Grain Wholesale Market.

Selimuddin, Abu.

China: the biggest dragon of all? USA today (magazine), v. 123, Sept. 1994: 24-26.

"Bold free-market reforms are leading to economic growth that may outstrip Japan, Taiwan, and South Korea--the so-called 'financial dragons' of the global economy--by the 21st century."

Shale, Tony.

Zhu Rongji's big gamble. Euromoney, Aug. 1993: 32-34, 36, 38-42.

"The new governor of the People's Bank of China is determined to cool the country's overheating economy. Key to his plan is a shake-out of the country's inefficient and corrupt financial system. He also wants to transform the People's Bank into a modern, western-style institution. But can Zhu resist powerful vested interests?" Also includes companion article, "Foreign Banks Scramble to win Chinese Business."

Shao, Wenguang.

China, Britain, and businessmen: political and commercial relations, 1949-57. Houndmills, Basingstoke, Hampshire, Macmillan, in association with St Antony's College, Oxford, 1991. 257 p. HF1604.Z4 G77 1991

Sharples, Jerry. Cesal, Lon. Hunter, Colby.

World events shaping future U.S. agricultural trade. Choices, second quarter 1994: 4-9.

Assesses how the unfolding political scene in China, Europe, the former Soviet Union, and Latin America could shape future agricultural trade, as told by Economic Research Service's experts on those regions.

Sheng, Yuming.

The capital sources of China's industrialization. Developing economies, v. 31, June 1993: 173-207.

"This paper tries to calculate IRF [intersectoral resource flows] by using the saving surplus approach which examines the issue from a different perspective .... briefly explains the different approaches to IRF .... calculates the saving surplus of the agricultural sector and compares the result with those produced by the methods of the intersectoral trade balance and the accounting for financial transfers in Sheng [13] .... attempts to estimate the market clearing price for the agricultural produce .... examines the socialist accumulation mechanism and the sources of China's industrialization."

Shi, Leiyu.

Family financial and household support exchange between generations: a survey of Chinese rural elderly. Gerontologist, v. 33, Aug. 1993: 468-480.

"This study examines the pattern of social support exchange between Chinese elderly and their adult children based on a 1989 rural Chinese household survey .... Elderly with greater resource capacities (i.e., health, income, education, and social network) were more likely to provide than receive assistance, whereas those with fewer resources had the opposite patterns. The exchange of support was more likely to be related to affective and nonfinancial instrumental support than financial instrumental support. Because only 42% of elderly with one or two children were living with their children, a formal pension and elderly care system is needed to complement the informal support system."

Shi, Xianmin.

The classification of privately-owned small businesses in Beijing. Social sciences in China, v. 15, spring 1994: 95-107.

Sicular, Terry.

China's agricultural policy during the reform period. Cambridge, Mass., Harvard Institute of Economic Research, Harvard University, 1990. 37 p. (Discussion paper series)

"After unprecedented growth in the early 1980s, China's agricultural performance weakened abruptly in 1985 and has stagnated thereafter. Several explanations have been proposed for this slowdown: the exhaustion of one-time gains from decollectivization; the limited amount and uneconomic distribution of arable land under small-scale household farming; and insufficient agricultural investment. This paper argues that such factors were not the primary causes of the slowdown. Rather, government policies enacted in 1983-85 brought about a sudden change in agriculture's fortunes, and the absence of comprehensive countermeasures in ensuing years hindered agriculture's recovery."

Silk, Mitchell A.

Cracking down on economic crime. China business review, v. 21, May-June 1994: 21-24, 26-28.

Says that incidents of economic crime are the inevitable result of China's economic reforms. Examines such problems as smuggling, speculation, fraud, embezzlement, tax evasion, bribery, and pirating of intellectual property.

Silent partners. China business review, v. 17, Sept.-Oct. 1990: 32-40.

Claims that "over the last few years, the economies of Taiwan and China have become increasingly integrated, thanks to political and economic developments on both sides of the Taiwan Strait. Indirect trade is expected to top $4 billion this year, and Taiwan investment in China stands at well over $1 billion."

Simon, Denis Fred.

After Tiananmen: what is the future for foreign business in China? California management review, v. 32, winter 1990: 106-123.

Claims that even before the June 1989 events at Tiananmen Square, "there had been a dangerous fiscal and monetary crisis brewing in the Chinese economy." Problems facing foreign firms in China today include inflationary trends and the divisions within the political leadership about how to treat the economic problems.

Sparking the electronics industry. China business review, v. 19, Jan.-Feb. 1992: 22-24, 26, 28.

Says that "current Chinese policy emphasizes foreign investment and technology import as the primary mechanisms for both upgrading manufacturing capabilities and increasing local content" in the electronics industry.

Simone, Joseph T., Jr.

Damming the counterfeit tide. China business review, v. 20, Nov.-Dec. 1993: 52-58.

Describes China's recently adopted "Anti-Unfair Competition Law, which provides legal protection for unregistered trademarks, trade names, product packaging, and trade dress. This law also provides new protection for trade secrets and outlaws other unfair trading practices, such as selling products below cost, paying bribes in the form of hidden commissions, and procuring favors from government personnel."

Improving protection of intellectual property. China business review, Mar.-Apr. 1992: 9-11.

"In mid-January, the United States and China reached a last-minute agreement on intellectual property rights, lifting the threat of US sanctions against China for its failure to adequately protect American copyrights, patents, trademarks, and trade secrets." This should help boost commerce between the two countries.

Singh, Bilveer.

China's arms exports: great benefits and dangers. Asian defence journal, Nov. 1991: 18-20, 22-23, 26, 28, 30-31.

"China's foray into the arms business is relatively recent. Since 1949, she has focused her energies on the development of self-reliant industrial projects, and after more than 30 years, the success of this could be seen, in part, in her growing importance as an arms exporter, especially involving sophisticated technologies. While in the 1950s and 1960s, China had been giving military equipment and logistic support to an increasing number of countries in the Third World, especially in Africa, since the 1980s, there has been a dramatic change in the content and direction of her arms sales policy."

Singh, I. J.

China: breaking the mold. International economic insights, v. 4, Mar.-Apr. 1993: 19-21.

"China has defied conventional wisdom of both what industrial policy ought to be and how it ought to be implemented. It has proceeded gradually, it has been experimental, bottom-up, partial and with vague and negotiated rules. Each region has taken its own path and the different tiers of government have had different aims. Nevertheless, the rate of economic and export growth has been impressive."

Sinton, Jonathan E. Levine, Mark D.
Changing energy intensity in Chinese industry: the relative importance of structural shift and intensity change. Energy policy, v. 22, Mar. 1994: 239-255.
"Analyses three different sets of energy consumption and output value data using a Laspeyres index method to determine the relative roles of structural shift and real intensity change in China's industrial sector between 1980 and 1990."

Sit, Victor F. S.
China's export-oriented open areas: the export processing zone concept. Asian survey, v. 28, June 1988: 661-675.
Examines the differences among China's four Special Economic Zones and looks at the relevance of other nations' export processing zones (EPZs) to their development. "A brief examination of the EPZ experience is first attempted using selected Asian examples. In the conclusion, attention is drawn to the limitations of foreign investment and the existence of methods other than the EPZ approach for promoting export-oriented economic growth in China's modernization drive."

Smart, Tim.
GE's brave new world; Welch sees the future. It's China, India, Mexico. Business week, no. 3345, Nov. 8, 1993: 64-70.
"Jack Welch has boldly decided to shift General Electric's focus from the industrialized world to Asia and Mexico. With prospects for future U.S. growth marginal, the $57 billion GE, the third-most-profitable corporation in America, feels it has little choice but to head where the gains will be. But the political and economic risks loom large."

Sobin, Julian M.
The China-Israel connection: new motivations for rapprochement. Fletcher forum, v. 15, winter 1991: 111-125.
"While clandestine Sino-Israeli commercial relations commenced as early as 1979, government-to-government meetings did not begin until 1986. Julian M. Sobin explores the development of covert Sino-Israeli relations and the emergence of overt rapprochement between the two countries. He maintains that the prospects for more extensive contacts and the establishment of diplomatic relations appear favorable despite Middle East tensions."

Social and economic developments in contemporary Asia. American Asian review, v. 12, fall 1994: whole issue (217 p.).
Partial contents.--Privatization in the Republic of China on Taiwan, by Thomas J. Bellows.--Japan in the 1990's and beyond: an economy in transition, by Scheherazade S. Rehman.--SAARC: is economic integration possible amid the political squabbles? by Gambhir Bhatta and Thomas P. Chen.--Socioeconomic development, state intervention and urban migration patterns in China: 1982-1987, by Wen Lang Li and Ning Xu.

Solomon, Richard H.
China and MFN: engagement, not isolation, is catalyst for change. Washington, U.S. Dept. of State, Bureau of Public Affairs, 1990. 7 p. (Current policy no. 1282)
Statement of the Assistant Secretary of State before the Senate Foreign Relations Committee presenting the "thinking that underlies the President's decision to extend China's MFN waiver as part of our overall policy approach toward China."

Special issue: the Asia-Pacific region; the impact of globalization and regionalization. Business & the contemporary world, v. 5, spring 1993: whole issue (201 p.)
Partial contents.--The Japan-United States economic partnership in a new age: a challenge for the 21st century.--The international technology market: globalization, regionalization and the Pacific Rim, by Denis Fred Simon.--Cross-investment in the Asia-Pacific: the case of Taiwan's inward and outward investment, by Chi Schive.--China's impact on the Asian Pacific regional economy, by Yun-Wing Sung.--The regional architecture of global electronics: trajectories, linkages and access to technology, by Michael Borrus.--Japan's roles in East Asia, by Charles E. Morrison.

Stavis, Benedict.

Market reforms and changes in crop productivity: insights from China. Pacific affairs, v. 64, fall 1991: 373-383.

"What improvements in agricultural production can be anticipated with the transformation of socialist agriculture to a market-based agricultural system." This paper "analyzes Chinese provincial agricultural data to estimate directly the initial changes in crop productivity when collective agriculture was substantially converted to private, market-based agriculture (1980-84) and the longer-term changes (1985-89)."

Steidlmeier, Paul.

China's most-favored-nation status: attempts to reform China and the prospects for U.S. business. Business & the contemporary world, v. 4, summer 1992: 68-80.

Presents "the leading geopolitical issues which frame the economic dialogue between the United States and China .... discuss[es] China's development priorities and the pressures the Chinese government places on companies to meet the economic goals of China's development and industrial policies and to stay out of politics .... review[s] the principal activist issues and interpret[s] their significance for American business prospects. These issues include China's human-rights record as well as order stakeholder issues such as environmental policy, public-health and tobacco policies, protection of intellectual property, and labor."

Stewart, Sally. Cheung, Michael Tow. Yeung, David W. K.

The latest Asian newly industrialized economy emerges. Columbia journal of world business, v. 27, summer 1992: 30-37.

Hong Kong, Taiwan, and a group of coastal Chinese provinces are emerging as a new economic entity called the South China Economic Community. It is an "economic grouping of cities and provinces without an institutional base or formal status that is bidding to become a significant player in the global economy of the 21st century."

Sullivan, Roger W.

Trade, investment, and the fear of "peaceful evolution." Issues and studies, v. 28, Feb. 1992: 51-66.

"Mainland China is a semi-reformed economy fearful of supposed foreign subversion and engaged in a leadership struggle among Communist leaders whose ideology is discredited worldwide. Its current leaders appear to have rejected the only viable course of substantial movement away from central planning and administrative control toward greater reliance on market forces for fear that such reform would result in politically dangerous instability in prices and balance of payments. Instead, they put their hopes in what has always been the Communist definition of reform: making socialism work better. They are ambivalent about foreign trade and investment, wanting their benefits but fearing their subversive effects. And so they act in ways that are likely to discourage foreign investment and reduce mainland China's dependence on trade."

Sun, Weiyan. Xu, Xianquan. Zheng, Dunxun.

China's transnational corporations; cover story. Intertrade, v. 8, Jan. 1991: 4-9.

Contents.--China's transnational corporations: who are they and what is their purpose? by Sun Weiyan.--International operations of Chinese enterprises, by Xu Xianquan and Li Gang.--The internationalization of China's enterprises, by Zheng Dunxun.

Suttmeier, Richard P.

Science and technology policy: developing competitive edge. Current history, v. 90, Sept. 1991: 275-279.

"As China enters the 1990s, it has become increasingly clear to the country's leadership that national wealth and power depend on the vigorous development of science and technology."

Symposium: communication in China. Journal of communication, v. 44, summer 1994: 4-88.

Partial contents.--Continuity and change in China's media reform, by Leonard L. Chu.--Mass communication and national development in China: media roles reconsidered, by Paul Siu-nam Lee.--News as social knowledge in China: the changing worldview of Chinese national media, by Tsan-Kuo Chang, Jian Wang, and Chih-Hsien Chen.--Media internationalization in China: processes and tensions, by Joseph Man Chan.

Tan, Songhua.

A realistic approach to human resources development in China--education, the system of labor, and human resources development. Social sciences in China, v. 15, spring 1994: 33-45.

"The relationship between education, the labor system, and the social requirements for development can be expressed as follows: society's need for human resources, as reflected in a labor system combining both planning and market regulation, guides the development and reform of education; human resources provided by education should take the initiative in adapting to the needs of society. A positive cycle of human resources development can thus be achieved as the two systems interact and are coordinated, and human resources development can thus be continually improved."

Taylor, Robert.

China, Japan, and the European Community. London, Athlone Press; Rutherford [N.J.], Fairleigh Dickinson University Press, 1990. 166 p. HF1532.935.C5 T39 1990

Te-sheng, Chen.

Mainland China's new economic prospects. Issues and studies, v. 28, July 1992: 35-51.

"At the Fifth Session of mainland China's Seventh National People's Congress (NPC), which was held from March 20 to April 3, 1992, three important reports related to economic development were delivered . . . . The contents of these reports, which reflect mainland China's current direction of political and economic development, as well as its current economic problems and development bottlenecks, are to be analyzed and appraised in this article."

Telecommunications in Asia. Far Eastern economic review, v. 156, Apr. 8, 1993: 37, 39, 42-43, 46, 48, 50, 52, 54, 56-57.

Thornton, Richard C. Newman, John M.

The comparative political-economic history of the People's Republic of China: a short course. In depth, v. 2, winter 1992: 155-189.

Concludes that there was "a wealth, power, and security component to every major policy change since the establishment of the PRC. The history of the PRC from 1949 to 1992 has been the history of the dynamic contention between opposing forces of the revolutionary generation led by Mao Zedong and Deng Xiaoping. The question now is: How will China's new generation, waiting in the wings for the old to pass, deal with the traditional goals of wealth, power, and security?"

Thurston, Richard L.

Country risk management: China and intellectual property protection. International lawyer, v. 27, spring 1993: 51-64.

Looks at the direction the reform movement is taking for China and the nature of the government that will emerge. "For many high-tech companies, which often depend on maintaining a high degree of protection of their intellectual properties, such characteristics may be of crucial importance since they often dictate the state's position on intellectual property rights and protection. Current developments in China's legal environment pertaining to intellectual property may provide an indicia to the changes and elements of risk that lie ahead."

Thurwachter, Todd.

Japan in China: the Guangdong example. China business review, v. 17, Jan.-Feb. 1990: 7-10, 12-17.

Analyzes the levels and composition of Sino-Japanese trade, contrasting this with the data for U.S. trade with China. "From 1984-88, Japan exported more than three times as much to China as did the United States: $57 billion versus $18.5 billion. And while Japan has maintained a multi-billion dollar trade surplus with China over this period, the US trade deficit with China has grown from less than $400 million to 4.2 billion."

Torbert, Preston M.

Broadening the scope of investment. China business review, v. 21, May-June 1994: 48-50, 52-55.

Says that new Chinese legislation, "effective July 1, 1994, will provide for the first time a firm legal foundation for the establishment and operation of large and small companies throughout China's 'socialist market economy.' It will also increase investment opportunities in China at a time when foreign investors are interested in the country."

Toronto, Steven L.

Bankruptcy of foreign enterprises in the PRC: an interpretation of the "rules concerning bankruptcy of foreign related companies in the Shenzhen Special Economic Zone." Journal of Chinese law, v. 4, fall 1990: 277-296.

Examines the only bankruptcy law in the People's Republic of China (PRC) currently applicable to foreign enterprises--the provisions developed in the Shenzhen Special Economic Zone. Describes the substantive law, the procedural structure, and the legislative intent of the provisions.

Tsao, King K. Worthley, John Abbott.

Chinese public administration: change with continuity during political and economic development. Public administration review, v. 55, Mar.-Apr. 1995: 169-174.

"Worthley and Tsao describe and analyze the Chinese reforms in the context of political and economic development. They find that the considerable changes described have been consistently and insistently anchored in China's recent administrative history, and that the administrative reforms are operationally inseparable from contemporary political and economic developments. They further find remarkable similarities with the historical development of public administration in the United States."

Tse, Ada Koon Hang.

The emerging legal framework for regulating economic relations between Taiwan and the mainland. Journal of Chinese law, v. 6, fall 1992: 137-178.

Article examines Taiwan's 1992 Statute Governing Relations Between People of the Areas of Taiwan and Mainland China. "Recommends that the Statute be examined in the context of the long-term security, stability and welfare of Taiwan and points out additional ways to achieve a more principled and democratic model."

Tung, Ricky.

Transforming the management of Mainland China's state-owned enterprises. Issues & studies, v. 29, Dec. 1993: 1-17.

Regulations issued in July 1992 "grant state-owned enterprises autonomy in fourteen areas, in the hope that they will become market-oriented before the end of 1993. However, the task of transforming enterprise management has encountered many problems and produced some adverse side-effects."

Tyson, James L. Tyson, Ann Scott.

Chinese reforms widen gap between coast and hinterland. Christian Science monitor, July 22, 1992: 9-12.

"China's vast rural population, whose support is vital to Communist Party leadership, is becoming a powerful influence for change. For this report, staff writers Ann Scot Tyson and James L. Tyson lived in villagers' homes, unescorted by government officials, and explored the frustrated ambitions of China's peasants."

Tzeng, Fuh-wen.

The political economy of China's coastal development strategy. Asian survey, v. 31, Mar. 1991: 270-284.

Describes the adoption in 1988 of the "Coastal Development Strategy (CDS) whose ultimate goal is to enable China to expand its exports and compete in the global market. The CDS attempts to link the coastal areas with the global marketplace and to promote export-oriented economic development through linkages to the inland areas."

The U.S.-China Act of 1991. Congressional digest, v. 70, Oct. 1991: whole issue (225-256 p.)

Presents pros and cons on whether the Senate should approve S. 1367, the U.S.-China Act of 1991, granting China Most Favored Nation trading status.

U.S.-China Business Council.

The case for China's MFN status. China business review, v. 19, July-Aug. 1992: 14-17.

Examines the costs to the U.S. of withdrawing Most Favored Nation (MFN) status to China, including lost exports, lost jobs, and higher consumer prices.

U.S.-China economic relations: present and future. Edited by Richard H. Holton and Wang Xi. Berkeley, Calif., Institute of East Asian Studies, University of California, Berkeley, c1989. 340 p. (Research papers and policy studies; 29) HF1456.5.C6 U16 1989

Papers prepared for the conference on United States-China economic relations, which was held at Fudan University in Shanghai, March 28-April 1, 1988. Cf. "Special note."

U.S. Congress. House. Committee on Foreign Affairs.
Renewal of MFN trading status for the People's Republic of China. Hearing and markup, 102nd Congress, 1st session on H. Con. Res. 174. June 26, 1991. Washington, G.P.O., 1991. 101 p.

U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on Arms Control, International Security, and Science.
Proposed sale and launch of United States satellites on Chinese missiles: hearing before the Subcommittees on Arms Control, International Security, and Science, on Asian and Pacific Affairs, and on International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, 100th Congress, second session, September 28, 1988. Washington, G.P.O., 1989. 145 p. KF27 .F636 1988g

U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on Asian and Pacific Affairs.
United States political and economic policy toward China: hearing before the Subcommittee on Asian and Pacific Affairs, and International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, 101st Congress, first session, December 13, 1989. Washington, G.P.O., 1990. 62 p. KF27 .F638 1989f

U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on Human Rights and International Organizations.
Chinese forced labor exports to the United States. Hearing before the Subcommittees on Human Rights and International Organizations and on International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, 102nd Congress, 1st session. Sept. 23 and Dec. 5, 1991. Washington, G.P.O., 1992. 237 p.

Most-favored-nation status for the People's Republic of China: hearings before the Subcommittees on Human Rights and International Organizations, Asian and Pacific Affairs, and on International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, 101st Congress, second session, May 16 and 24, 1990. Washington, G.P.O., 1990. 331 p. KF27 .F645 1990d

-----
Most favored nation status for the People's Republic of China: joint hearing before the Subcommittees on Human Rights and International Organizations, Asian and Pacific Affairs, and International Economic Policy and Trade of the Committee on Foreign Affairs, House of Representatives, 102nd Congress, first session, May 29, 1991. Washington, G.P.O., 1992. 300 p. KF27 .F645 1992a

U.S. Congress. House. Committee on Foreign Affairs. Subcommittee on International Economic Policy and Trade.
Technology transfer to China. Hearing, 100th Congress, 1st session. July 8, 1987. Washington, G.P.O., 1989. 95 p.

"A review of a "report by the Office of Technology Assessment on the question of technology transfer to the People's Republic of China."

U.S. Congress. House. Committee on Merchant Marine and Fisheries. Subcommittee on Oversight and Investigations.
Fair trade practices with the People's Republic of China. Hearing, 102nd Congress, 1st session on the Republic of China's trade practices and the report of forced labor goods being exported to the United States. July 17, 1991. Washington, G.P.O., 1991. 83 p.

"Serial no. 102-29"

U.S. Congress. House. Committee on Post Office and Civil Service.
Interference of international mail by the People's Republic of China; a report prepared by Representative Benjamin A. Gilman for the Committee on Post Office and Civil Service, House of Representatives. Washington, G.P.O., 1990. 6 p. (At head of title: 101st Congress, 2nd session, committee print 101-9.)

U.S. Congress. House. Committee on Post Office and Civil Service. Subcommittee on Postal Operations and Services.
Mail interruption. Hearing, 101st Congress, 1st session. Nov. 9, 1989. Washington, G.P.O., 1990. 88 p.
"Serial no. 101-39"

U.S. Congress. House. Committee on Ways and Means.
Additional objectives which the People's Republic of China must meet in order to qualify for nondiscrimination treatment in 1992; report together with dissenting and additional views to accompany H.R. 2212 including cost estimate of the Congressional Budget Office. [Washington, G.P.O.] 1991. 17 p. (Report, House, 102nd Congress, 1st session, no. 102-141)

Disapproving the extension of nondiscriminatory treatment to the People's Republic of China; report together with additional views to accompany H.J. Res. 263. [Washington, G.P.O.] 1991. 9 p. Report, House, 102nd Congress, 1st session, no. 102-140

U.S. Congress. House. Committee on Ways and Means. Subcommittee on Trade.
Additional requirements on the extension of China's most-favored-nation trade status in 1993. Hearing, 102nd Congress, 2nd session on H.R. 5318. June 29, 1992. Washington, G.P.O., 1992. 163 p.
"Serial 102-105"

H.R. 4590, United States-China Act of 1994. Hearing, 103d Congress, 2nd session. July 28, 1994. Washington, G.P.O., 1994. 199 p.
"Serial 103-97"

United States-China trade relations. Hearing, 103d Congress, 1st session. June 8, 1993. Washington, G.P.O., 1993. 195 p.
"Serial 103-16"

United States-China trade relations. Hearing, 103d Congress, 2d session. Feb. 24, 1994. Washington, G.P.O., 1994. 322 p.
"Serial 103-85"

United States-People's Republic of China (PRC) trade relations, including most-favored-nation trade status for the PRC. Hearings, 101st Congress, 2nd session, June 19 and 21, 1990. Washington, G.P.O., 1990. 411 p. KF27 .W348 1990
"Serial no. 101-107."

United States-People's Republic of China trade relations, including most-favored-nation trade status for China. Hearing, 102nd Congress, 1st session. June 12, 1991. Washington, G.P.O., 1992. 304 p.
"Serial 102-38"

U.S. Congress. Joint Economic Committee.
China's economic dilemmas in the 1990s: the problems of reforms, modernization, and interdependence. Vol. 1--Study papers. Washington, G.P.O., 1991. 436 p. (Print, Senate, 102nd Congress, 1st session, joint committee print S. Prt. 102-21, vol. 1)

China's economic dilemmas in the 1990s: the problems of reforms, modernization, and interdependence. Washington, G.P.O., 1991. 437-931 p. (Print, Senate, 102nd Congress, 1st session, joint committee print S. Prt. 102-21, vol. 2)

Volume 2--Study papers.

Partial contents.--Overview, by Phillip Kaiser.--China's enduring state factories: why ten years of reform has left China's big state factories unchanged, by James B. Stepanek.--China's space program, by Marcia Smith.--Perspectives on China's brain drain, by Leo A. Orleans.--China in transition: military concerns and ability to influence events, by Ronald N. Montaperto.--China arms sales overview and outlook for the 1990s, by Shirley Kan.--China's potential for export-led growth, by William A. Fischer.--In search of excellence within China's industrial sector: the Chinese enterprise and foreign technology, by Roy F. Grow.--Chinese law relating to foreign investment and trade: the decade of reform in retrospect, by James V. Feinerman.--U.S.-China commercial relations: a decade after normalization, by Nai Ruenn Chen.

Global economic and technological change: former Soviet Union and Central and Eastern Europe, and China. Hearings, 103d Congress, 1st session. Part 4. June 11 and June 30, 1993. Washington, G.P.O., 1994. 144 p. (Hearing, Senate, 103d Congress, 1st session, S. Hrg. 103-704, pt. 4)

Global economic and technological change: former Soviet Union, Central and Eastern Europe; and China. Hearings, 103d Congress, 2nd session. July 15 and July 22, 1994. Part 5. Washington, G.P.O., 1994. 101 p. (Hearing, Senate, 103d Congress, 2nd session, S. Hrg. 103-704, Pt. 5)

U.S. Congress. Joint Economic Committee. Subcommittee on Technology and National Security.

Global economic and technological change: former Soviet Union and Eastern Europe, and China. Hearing, 102nd Congress, 2nd session. Part 2. June 8 and July 27, 1992. Washington, G.P.O., 1993. 211 p. (Hearing, Senate, 102nd Congress, 2nd session, S. Hrg. 102-586, pt. 2)

Reprints two reports by the CIA and Defense Intelligence Agency on reform efforts in Eastern Europe and the CIS countries. Also reprints a CIA study on the Chinese economy in 1991 and 1992.

U.S. Congress. Senate. Committee on Energy and Natural Resources.

Energy needs of the People's Republic of China. Hearing, 103d Congress, 1st session. Mar. 11, 1993. Washington, G.P.O., 1993. 84 p. (Hearing, Senate, 103d Congress, 1st session, S. Hrg. 103-38)

U.S. Congress. Senate. Committee on Finance.

China most-favored-nation status. Hearing, 102nd Congress, 1st session. June 19-20, 1991. Washington, G.P.O., 1992. 201 p. (Hearing, Senate, 102nd Congress, 1st session, S. Hrg. 102-417)

Disapproving the recommendation of the President to extend discriminatory treatment (most-favored-nation treatment) to the products of the People's Republic of China; report to accompany S.J. Res. 153. Washington, G.P.O., 1991. 4 p. (Report, Senate, 102nd Congress, 1st session, no. 102-102)

Extending China's MFN status. Hearing, 102nd Congress, 2nd session on S. 2808 and H.R. 5318. July 30, 1992. Washington, G.P.O., 1993. 114 p. (Hearing, Senate, 102nd Congress, 2nd session, S. Hrg. 102-1063)

Extending most-favored-nation status for China. Hearing, 101st Congress, 2nd session. June 20, 1990. Washington, G.P.O., 1991. 169 p. (Hearing, Senate, 101st Congress, 2nd session, S. Hrg. 101-1207)

Extending to the People's Republic of China renewal of nondiscriminatory (most-favored-nation) treatment until 1992 provided certain conditions are met; report to accompany S. 1367. [Washington, G.P.O.] 1991. 5 p. (Report, Senate, 102nd Congress, 1st session, no. 102-101)

U.S. Congress. Senate. Committee on Foreign Relations. Subcommittee on East Asian and Pacific Affairs.

Sino-American relations: current policy issues. Hearings, 102nd Congress, 1st session. June 13-27, 1991. Washington, G.P.O., 1991. 141 p. (Hearing, Senate, 102nd Congress, 1st session, S. Hrg. 102-241)

U.S. export controls and China. Gist, Nov. 1989: 1-2.

"US export controls on technology and equipment transfers to China, particularly for items in widespread commercial use, have been liberalized gradually since the early 19890s. An important motivation for this liberalization has been a desire to support US private sector involvement in China's modernization program, which is turn aids the development of China's economy. It has been the view of five US Administrations that a friendly, stable, modernizing China will contribute to peace and stability in East Asia and is in the general US foreign policy interest."

U.S. General Accounting Office.

U.S.-China trade: implementation of agreements on market access and intellectual property; report to the Honorable Hank Brown, U.S. Senate. Jan. 25, 1995. Washington, G.A.O., 1995. 68 p.

"GAO/GGD-95-61, B-259747"

"This report focuses on (1) China's compliance with the provisions of the market access MOU [memorandum of understanding] and related progress needed for China to meet the eligibility requirements to join the General Agreement on Tariffs and Trade (GATT) and (2) China's implementation of the MOU on the protection of intellectual property rights."

U.S.-China trade: implementation of the 1992 prison labor memorandum of understanding; report to the Committee on Finance, U.S. Senate, and the Committee on Ways and Means, House of Representatives. Apr. 3, 1995. Washington, G.A.O., 1995. 24 p.

"GAO/GGD-95-106, B-257850"

"The People's Republic of China has one of the world's fastest growing economies and has rapidly become one of the U.S.' most important trading partners. In 1993, U.S. imports from China totaled $31.5 billion, and U.S. exports reached $8.8 billion. Since 1992, the United States and China have entered into several trade agreements to help resolve bilateral trade issues, such as U.S. market access in China and the U.S. prohibition on importing goods made with Chinese prison labor. In May 1993, President Clinton signed executive order 12850. The executive order added a requirement for the administration to review China's compliance with the August 7, 1992, U.S.-China prison labor memorandum of understanding (MOU) as part of the President's annual assessment of China's most-favored-nation (MFN) status in 1994." Reviews the status of these agreements.

International trade: U.S. Government policy issues affecting U.S. business activities in China; report to the Chairman, Committee on Governmental Affairs, and the Honorable Joseph I. Lieberman, U.S. Senate. May 4, 1994. Washington, G.A.O., 1994. 75 p.

"GAO/GGD-94-94, B-256468"

"We identified (1) factors contributing to the growing importance of the U.S.-China trade relationship, (2) U.S. government and international programs to promote bilateral trade and support the development of China's economy, and (3) U.S. government policies that may decrease U.S. business opportunities in China. In addition, at your request, we provided information on discrepancies in U.S.-China trade statistics and on prospects for increased U.S. participation in China's petroleum sector."

Wang, Davis.

Dogged by inflation: China's move to a socialist market economy. Harvard international review, v. 16, fall 1994: 58-59, 87-88.

Describes efforts by China to achieve long-term price stability.

Wang, Dingyong.
On tariffs and the General Agreement on Tariffs and Trade (GATT). Social sciences in China, v. 15, spring 1994: 119-129.

Discusses both the benefits and costs of China joining the GATT. Says that China will be challenged by "large tariff reductions and the lifting of non-tariff protectionist measures. The textile, automobile, and other industries and products will face a severe and comprehensive competitive market test."

Wang, Guiguo.
China's return to GATT: legal and economic implications. Journal of world trade, v. 28, June 1994: 51-65.

"This article briefly discusses China's participation in GATT. It outlines the structure of the GATT and the rights and obligations of its Contracting Parties, and GATT's developments, including the Uruguay Round. It also discusses the relevant legal issues concerning China's resumption of GATT Contracting Party status, and the effect of its status as such on its economic development as well as on Hong Kong's economy."

Wang, N. T.
Taiwan's economic relations with mainland China. Asian affairs, v. 18, summer 1991: 99-119.

"In this essay, I will first outline the historical evolution of the general environment across the Taiwan Strait. Second, I will examine the patterns and trends of trade and investment across it. Third, I will analyze the perceived gains and concerns of expanding relations, especially from the point of view of Taiwan, and, fourth, I will evaluate a number of policy issues, ranging from deliberate ambiguity to rule of law, discretionary screening, and global strategy. Finally, I will suggest some implications for the future."

Wang, Qingbin. Jensen, Helen H. Johnson, Stanley R.
China's nutrient availability and sources, 1950-91. Food policy, v. 18, Oct. 1993: 403-413.

"The rapid changes in China's economy and data availability have led to the need for a quantitative assessment of its food and nutrient situation. This paper first reports estimates of China's average per capita daily energy, protein and fat availability through yearly food balance sheets for the period 1950-91. Then policy impacts on the nutrient changes are examined. Results suggest that China's nutritional status has improved significantly over the period, especially since the 1978 economic reforms."

Wang, Shaoguang.
The compatibility of public ownership and the market economy: a great debate in China. World affairs, v. 157, summer 1994: 38-49.

Considers the prevailing controversy regarding public ownership in China's new market economy. Examines the views of three distinct philosophical schools: socialist marketeers, privatization advocates, and market socialists.

Wang, Yeu-Farn.
China's science and technology policy, 1949-1989. Aldershot, Hants, England; Brookfield, Vt., Avebury, c1993. 173 p. Q127.C5 W352 1993

Wei, Huang.
Hunan opens to the outside world: a fresh look. Beijing review, v. 36, Sept. 20-26, 1993: 16-20.

"Hunan Province has recorded notable achievements during the past few years in its effort to attract more foreign investment. The city has improved its foreign investment environment, developed an export-oriented economy, and established a new opening pattern."

Weidenbaum, Murray.
The shifting roles of business and government in the world economy. Challenge, v. 36, Jan.-Feb. 1993: 23-29.

Speculates on how technological and economic changes are altering the world economy. Says that "the nations and companies that perform well will be those that can generate, attract, and keep educated, skilled, and experienced workers, managers, and entrepreneurs." Includes comments on the possibility of a Greater Chinese Economic Zone.

West, Loraine A.

Opening China's market to U.S. agriculture. Choices, third quarter, 1994: 24-27.

"Between 1986 and 1993, the United States merchandise trade deficit with China increased from $1.7 billion to a record $22.8 billion, and now is second only to the U.S. deficit with Japan. The U.S. agricultural trade surplus with China also vanished over this period. The United States hopes the market access agreement reached with China in 1992 will reverse the trend of rising deficits. What prompted this agreement? What reforms does the new agreement set forth and how might our agricultural trade with the giant Chinese market be affected." Agricultural products covered by this Memorandum of Understanding include fruit, grains, vegetable oils, and tobacco.

Reform of China's foreign trade system and prospects for freer trade. Washington, Center for International Research, U.S. Bureau of the Census, 1993. 66 p. (CIR staff paper; no. 69) HF1604 .W47 1993

White, Gordon.

Riding the tiger: the politics of economic reform in post-Mao China. London, MacMillan, 1993. 286 p.

Partial contents.--The failure of the Maoist developmental state and the rise of the economic reformers.--The politics of agrarian reform.--The politics of industrial reform.--Economic reform and ideological decay: the decline of ideocracy.--The party's over? Economic reform and institutional decay.--From market socialism to social market?

Whyte, Martin King.

Prospects for democratization in China. Problems of communism, v. 41, May-June 1992: 58-70.

"Contingency may have played a greater role in the failure of the Beijing spring of 1989 than previously . . . has been acknowledged . . . . In short, the absence of meaningful democratization in China is not inevitable and eternal."

Wilhelm, Kimbrely Anne.

China's environment: foreign trade and investment and international organizations. Journal of Northeast Asian studies, v. 11, spring 1992: 52-66.

"Because of the global implications of China's environmental pollution, international action is needed. Foreign trade and investment should be encouraged to incorporate environmental concerns and technology transfer, especially in the area of energy efficiency. Continued and enhanced international cooperation as well as loans and investment through international and regional organizations should also contribute to improving China's and the global environment. Finally, China should assist in this process by continuing domestic economic reform and the open door policy."

Womack, Brantly.

Sino-Vietnamese border trade: the edge of normalization. Asian survey, v. 34, June 1994: 496-512.

Argues that within the context of the "general Chinese-Vietnamese relationship, the border trade is likely to play a stabilizing role as the major expression of a shared material interest in cooperation . . . . Trade is likely to be inconvenienced but not seriously threatened by territorial disputes over the land border, which involve very small amounts of land, but it could be threatened by larger hostilities, such as armed conflict over the Spratly Islands. However, it will be increasingly difficult to move back to the situation of a closed and hostile border, especially for Vietnam."

Worthy, Ford S.

Where capitalism thrives in China. Fortune, v. 125, Mar. 9, 1992: 71-72, 74-75.

"The boom in the Pearl River Delta shows what the country could be like if the old men in Beijing got out of the way. Meet the world's fastest-growing economy."

WuDunn, Sheryl. Kristof, Nicholas D.

China's rush to riches. New York times magazine, Sept. 4, 1994: 38-41, 43, 46, 54.

The authors "describe a society that is at once politically repressive and economically freewheeling . . . . Now is the time, many Chinese feel, when the great fortunes will be made, before the system becomes more rigid and opportunities fewer."

Xu, Baiyi.
Reaching the Chinese consumer: where to place your ad for maximum effect. China business review, v. 19, Nov.-Dec. 1992: 36-38, 41-42.

Tells where to advertise for the greatest impact for Chinese consumers.

Xu, Wenyuan.
Promotion of Sino-Latin American economic and trade relations: retrospects and prospects. Foreign affairs journal, no. 29, Sept. 19933: 48-55.

"China has a long history of trade relations with the Latin American countries . . . . However, the current scale of trade exchanges and economic cooperations does not commensurate with the size of their respective territories, populations, natural resources, market scales and economic development levels. In this sense, the bilateral economic and trade relations are still at an initial stage. But there exist great potential and broad prospects for their further development and expansion."

Yan, Rick.
To reach China's consumers, adapt to Guo Qing. Harvard business review, v. 72, Sept.-Oct. 1994: 66-68, 70-73.

Advises foreign companies that wish to do business in China to adapt to Guo Qing (Chinese characteristics). Examples of Guo Qing that Western companies should keep in mind include: the one child policy; the state ownership system; and confucian philosophy.

Yang, Dali L.
Reforms, resources, and regional cleavages: the political economy of coast-interior relations in mainland China. Issues & studies, v. 27, Sept. 1991: 43-69.

Examines "the growing prominence of coast-interior cleavages in reform in mainland China. Dissatisfied with the preferential policies for the coastal region and the distorted price structure, both of which are due to central government policies, interior interests have pursued two strategies to bring about policy changes in their favor."

Yang, Jiemian.
Sino-US relations: problems and solutions. American Asian review, v. 10, spring 1992: 62-71.

"Relations between the two countries came to focus on the three major issues of trade policies, human rights and arms sales."

Yang, Ruilong. Tisdell, Clem.
Inflation in the transformation phase of the Chinese economic system: its prevalence, causes and effects. Asian economies, no. 81, June 1992: 25-41.

"Eradication of inflation in China requires not only adjustment of monetary policy, but also reforms of basic institutional-economic factors in the system which inevitably encourage inflation. Market reforms and other reforms in the economic system must proceed further in order to restrain inflation in China effectively."

Yang, Shi. Furedy, Christine.
Recovery of wastes for recycling in Beijing. Environmental conservation, v. 20, spring 1993: 79-82.

"The present case-study serves to correct the understanding of urban-waste recovery in China that had been based on earlier accounts of large recovery companies such as those in Shanghai . . . . It outlines the structure of the state-run system, and sketches the parallel informal system of wastes recovery in Beijing, which recovery has been increasing in importance in the last few years."

Yang, Xiaoping.
Progress and problems in the development of a new income tax system for state-owned enterprises in China. Journal of Chinese law, v. 3, summer 1989: 95-115.

Article looks at the development of an income-tax system in China. Claims that the Operational Responsibilities Contract System "emasculates the essence of the income tax system. It reverts to a system under which payments to the government are determined primarily by individualized negotiations rather than by uniform rates."

Yap, Chan Ling.

China: rice market reforms. Food policy, v. 19, Aug. 1994: 367-379.

"The paper reviews the main rice policy reforms in China in the 1980s and 1990s and examines the impact these reforms have had on its production, consumption and trade. Despite the country's recognition of the importance of raising output and the priority given to well-tried measures in the past to increase production, the spectacular growth of the industrial and service sector has resulted in increasing discontent in the rural sector. The fall in production that ensued in the early 1990s has had little impact on China's export availabilities while rapid income growth in the urban areas has, so far, enabled the country to adjust to the abolition of the rice ration scheme. The question is whether these situations can be sustained if rice production continues to stagnate."

Yeh, Chang-mei.

Mainland China's financial system: problems and proposed solutions. Issues & studies, v. 29, Dec. 1993: 46-68.

Says that Chinese policymakers have adopted "measures to step up the financial reform to suit the requirements of the socialist market economy. This reform should be oriented toward shareholding, commercialization, regionalization, and pluralization, and its key lies in the development of private commercial banks."

The three kinds of foreign-invested enterprises in Mainland China. Issues & studies, v. 25, Mar. 1989: 58-79.

Looks at the "unsteady growth" since 1979 in the three types of foreign investment enterprises in China: joint ventures, contractual joint ventures, and wholly foreign-owned enterprises.

Yeh, K. C.

The lessons of East Asian development and alternative development strategies for Hainan. Santa Monica, Calif., Rand Corporation, 1991. 34 p. (Rand note N-3294-NRCSTD)

"Hainan's development goal is to generate and sustain a relatively high growth rate so that, at some target date, say the year 2000, per-capita income will reach a level substantially higher than the current one. The important question is how to attain this goal. What policy options are open to Hainan, and which course of action should Hainan take? This study addresses these issues by drawing on the experiences of three newly industrialized economies (NIEs) that have successfully gone through the same development process: South Korea (for convenience, henceforth Korea), Taiwan and Hong Kong."

Yen, Tzung-ta.

Taiwan investment in mainland China and its impact on Taiwan's industries. Issues & studies, v. 27, May 1991: 10-42.

Discusses "investment by Taiwan manufacturers in mainland China and the problems they are currently facing, patterns of trade and investment between Taiwan and the mainland, the ROC's policy of indirect investment in the mainland, and the impact of investment in the mainland on Taiwan's domestic industries."

Yeung, Desmond.

China's new individual income tax rates. China business review, v. 21, Jan.-Feb. 1994: 43-45.

"The new law, which becomes effective January 1, 1994, seeks to eliminate tax differentials on employment income between foreigners and Chinese citizens by establishing one rate table. The law will apply to most forms of personal income, including income from business operations of self-employed Chinese entrepreneurs as well as from contracts, sub-contracts, leases, and sub-leases."

Yilin, Zhu.

China's communication satellites and their benefits. Space policy, v. 9, May 1993: 170-172.

"This report describes the development and the benefits derived from China's communication satellites. It provides information on the experimental communication satellites and the four operational satellites which have all been put into geostationary orbit, and then the new medium-capacity domestic communication satellite which is scheduled to be launched in 1993."

Yin, Jason Z. Yen, Charles C.
An assessment of the economic relations between Taiwan and Mainland China. American Asian review, v. 10, winter 1992: 53-78.

"This paper consists of five parts: the first part is an introduction; the second part reviews the economic ties developed over the last decade; the third part analyzes the structure of the trade and investment; the fourth part examines the degree of mutual economic dependency; and the fifth part concludes with a discussion of the future prospects and policy recommendations for the two governments in question."

Yin, Xiao-huang.
China's gilded age. Atlantic monthly, v. 273, Apr. 1994: 42, 44, 46-48, 52-53.

"A journey through a country bursting with new wealth but besotted by corruption and threatened by a split between its prosperous cities and its stagnant rural areas."

Yin, Xingmin.
Industrial concentration in Mainland China: changes and problems. Issues & studies, v. 29, Nov. 1993: 1-25.

Concludes that in the 1980-90 period, "China's industry had not only had a remarkably low level of concentration, but the concentration trend has been downward, with almost all industries witnessing a decline in enterprise size .... The factors which influence concentration changes have been identified as high industrial growth, the expansion of capital and employment, rapid changes in the numbers of enterprises, and the impact of government policy on Mainland China's industry."

Yu, Daniel.
Inside China's share scramble. Asia money & finance, Feb. 1993: 15-17.

"China's stock markets captured the imagination of foreign investors last year. But the mad rush into the mainland has left the fledgling markets in disarray. The authorities are working to restore but investors are becoming increasingly impatient."

Yu, Guang Hua.
China's foreign exchange regulations and direct foreign investment. Journal of world trade, v. 28, Dec. 1994: 99-120.

"Examines various ways used in China to assist foreign-invested enterprises when free convertibility of Chinese currency into foreign currencies is not considered feasible in the short run. Finally, the impact of foreign exchange regulations on foreign investors is analysed."

Yu, Jianyang.
Review of patent infringement litigation in the People's Republic of China. Journal of Chinese law, v. 5, fall 1991: 297-347.

"This article will review the present status of patent infringement litigation in the P.R.C., explores some important issues arising from these actions as well as propose particular resolutions. Selected court decisions, and in some circumstances, administrative decisions, that cover areas of major interest or legal significance will also be discussed."

Yu, Peter Kien-hong.
China's 'one army, two systems.' Jane's intelligence review, v. 5, Apr. 1993: 186-189.

"In an effort to make sure that the PLA could meet the economic demands of the state while retaining a military function, the principle of 'One Army, Two Systems' was developed."

Yuan, Jing-dong. Eden, Lorraine.
Export processing zones in Asia: a comparative study. Asian survey, v. 32, Nov. 1992: 1026-1045.

"We hypothesized that three sets of variables were likely to affect EPZ performance: the international environment, domestic conditions, and the role of the state. The findings in case studies of zones in three countries [China, South Korea, and Taiwan] generally support our hypothesis."

Yuasa, Makoto.
Asia's new bubble economy: China. Tokyo business today, v. 61, July 1993: 28-30.

"Japan has already had its cycle of high growth, loose money, inflation, and recession. Now China is charging headlong into the same kind of difficulties. Despite surging investment, growing inflation, and unmistakable economic warning signs, Deng Xiaoping is still pushing for hypergrowth."

Yun, Ma Shu.

The politics of the Three Gorges project. Issues & studies, v. 26, Dec. 1990: 85-99.

"The proposed Three Gorges Dam [in China] will be 180 meters high and 2.6 kilometers long, larger than any existing dam in the world. It will create a lake 560 kilometers long, and submerge ten cities, forcing the migration of more than a million people. The project has been justified on grounds including flood control, power generation, and improvement of navigation." This paper outlines the disputes over the major technical issues of the Three Gorges plan, updates the post-1986 development of the project, and examines the bureaucratic politics behind the project.

Yusuf, Shahid.

China's macroeconomic performance and management during transition. Journal of economic perspectives, v. 8, spring 1994: 71-92.

"This paper will describe China's macroeconomic performance since the start of reforms, analyze the forces responsible for growth and the periodic bouts of instability, and explain how China has managed this complex and volatile process."

Zhang, Jialin.

Guiding China's market economy. Current history, v. 93, Sept. 1994: 276-280.

"Zhang offers an overview of China's economic reform program from a Chinese point of view. He also examines the political implications of economic reform and argues that 'a middle class numbering in the tens of millions is emerging in China .... The leadership will [have to] respond to its demands by carrying out political reforms ....'"

Zhang, Shuguang.

Trade problems in economic development and its structural change--international experiences and China's choices. Social science in China, v. 10, Sept. 1989: 27-52.

Examines the links between trade growth and economic growth of several industrialized countries and relates this experience to China. Claims that "there are two prerequisites for China's economic development and its structural change: one is a shift from investment demand as the main driving force to consumption as the main driving force, another is a shift from inward orientation to outward orientation."

Zhang, Zhiping.

Capital goods turn to free market. Beijing review, v. 36, July 5-11, 1993: 13-16.

"Since China turned to the market economy last year, most capital goods have been no longer subject to state allocation and fixed prices. More than 60,000 markets of various kinds have mushroomed nationwide."

Zhang, Zhuo.

An analysis of some of the objectives of China's modernization. Social sciences in China, v. 14, autumn 1993: 5-16.

Discusses China's modernization program and its impact on agriculture, industry, science and technology, education, population control, and the environment.

Zhao, John Quansheng.

Politics of Japan-China trade negotiations. Asian profile, v. 18, Apr. 1990: 97-115.

Examines the four major economic agreements between Japan and China (trade, aviation, maritime transportation, and fisheries) concluded after the 1972 normalization. Focuses "on the role played by the bureaucracy and the ruling Liberal Democratic Party (LDP), and the interaction between the two."

Zheng, Chengsi.

GATT and copyright relations between the Mainland and Taiwan of China. Social sciences in China, v. 16, spring 1995: 111-119.

Reviews intellectual property policy in China and Taiwan and implications of the GATT's Trade Related Intellectual Property sub-agreement (TRIPs).

Zheng, Zonghan.

An analysis of the cost of industrial products in China. Social sciences in China, v. 15, summer 1994: 11-20.

Examines reasons for the "spiraling cost of industrial products" in China since 1978.

Zhou, Shulian.
Revitalizing state-owned enterprises. Social sciences in China, v. 14, summer 1993: 5-12.
Says that state-owned enterprises in China "should make every effort to raise competitive capacity with respect to internal reform, management and administration, the improvement of technology, and leadership. So long as enterprises make progress in these aspects and the government at various levels makes efforts to improve the external environment, state-owned enterprises will surely enhance their vitality and competitive capacity."

Zhou, Xiao-Lin.
U.S.-China trade dispute and China's intellectual property rights protection. New York University journal of international law and politics, v. 24, spring 1992: 1115-1129.
"The path of U.S.-China trade development has not been smooth. All along, problems and frictions have occurred requiring constant adjustments and compromises from both countries. More recently, the continuing controversy over China's intellectual property rights protection has strained bilateral trade relations."

Zonghan, Zheng.
An analysis of industrial labor productivity in China. Social sciences in China, v. 12, Sept. 1991: 17-37.
Traces the growth of labor productivity in China since 1949, and looks at ways to improve it as a means of economic growth and competitiveness with the West.

Zongxin, Wu. Zhihong, Wei.
Policies to promote energy conservation in China. Energy policy, v. 19, Dec. 1991: 934-939.
"Various characteristics of the Chinese energy system have contributed to inefficient energy use. In recent years, severe energy shortages in China and rising international concerns over greenhouse gas emissions have sparked greater interest in efforts to promote energy conservation and reduce China's currently high levels of energy waste. This paper briefly presents the results of a series of long-term energy and carbon emissions scenarios for China" and identifies policy options for improving the efficiency of energy use in China.

Zou, Jiahua.
Report on the implementation of the 1991 plan for national economic and social development and the draft 1992 plan. Beijing review, v. 35, Apr. 20-26, 1992: I-IV.
Reviews China's national development plan, including such topics as agricultural development, economic restructuring, capital investments, foreign trade, and technology policy.

China:
What should be the policy of the United States Government toward the People's Republic of China?

A Guide to Information Sources on the 1995-1996 High School Debate Topic

Sherry B. Shapiro
Bibliographic Specialist
Library Services Division

with the assistance of
Lee Burwasser, Bibliographic Assistant

April 1995

CONTENTS

INTRODUCTION 801

RESEARCH SOURCES 802

HOW TO LOCATE REFERENCE SOURCES 804
- BOOKS AND MONOGRAPHS 804
- ENCYCLOPEDIAS AND DIRECTORIES 804
- JOURNAL ARTICLES 806
- NEWSPAPER ARTICLES 809
- ONLINE DATABASES 811
- CD-ROM DATABASES 812
- DISSERTATIONS 812
- GOVERNMENT PUBLICATIONS 812
- LEGISLATIVE INFORMATION 813
- STATISTICAL SOURCES 814
- INTERNET RESOURCES 814

REFERENCE MATERIALS 816

SELECTED PERIODICALS 821

AGENCIES AND ORGANIZATIONS 822
- DIRECTORIES TO AGENCIES AND ORGANIZATIONS 822
- FEDERAL GOVERNMENT AGENCIES 823

A GUIDE TO INFORMATION SOURCES
on the 1995-1996 High School Debate Topic

INTRODUCTION

This research guide identifies sources of information on U.S. China policy and related topics that will be discussed by high school debaters. It describes reference and research tools and suggests particular search strategies that can be used to retrieve information on these topics.

In some cases, search terms are provided for each resolution of the debate topic. In other cases, only a few general terms on the topic are provided. These search terms are not exhaustive. The primary terms are included to help the debaters begin their search for supporting materials on the range of issues relating to China policy.

The individual topics are closely linked. As debaters focus on individual resolutions, and on the general issue of China policy, they will also need to scan selected relevant search terms listed under the other resolutions.

In this guide, the resolutions are referred to in the abbreviated form listed below in parentheses following each resolution.

China: What should be the policy of the United states government toward the People's Republic of China? **(General)**

> Resolved: That the United States government should substantially change its foreign policy toward the People's Republic of China. **(Foreign policy)**
>
> Resolved: That the United States government shoudl substantially change its economic policy toward the People's Republic of China. **(Trade policy)**

Although printed sources are emphasized in this guide, debaters should also take note of the Federal organizations listed in the section on further contacts at the end of the guide. These offices may be able to furnish additional information or publications on various policy options.

RESEARCH SOURCES

This is a list of key information resources described in this guide, and the page where each is described.

ABC Pol Sci (A Bibliography of Contents: Political Science & Government) 806
Academic Index 806
American Statistics Index (ASI) 814
Atlanta Journal, The Atlanta Constitution Index 809
Black Newspapers Index 809
Books in Print 804
Boston Globe Index 809
BRS 811
Business Periodicals Index 806
Christian Science Monitor Index 809
CIS Index 813
Clearinghouse Directory 822
Comprehensive Dissertation Index (CDI) 812
Congressional Index 813
Congressional Quarterly Weekly Report 813
Congressional Record 813
Current Law Index 806
DATATIMES 811
Denver Post Index 810
Depository Libraries 812
Detroit News Index 810
DIALOG 811
Directory of Directories 804
Dissertation Abstracts International (DAI) 812
Encyclopedia of Associations 822
Encyclopedia of Governmental Advisory Organizations 822
Federal Depository Library Program 812
Global Electronic Library (by Subject) 815
Government Reports Announcements and Index 812
Government Research Directory 822
Guardian Index 810
Houston Chronicle Index 810
Houston Post Index 810
Index To Legal Periodicals 806
Information USA 804
Infotrac II 806
Law Reviews Library (LAWREV) 809
LC MARVEL (Machine-Assisted Realization of the Virtual Electronic Library) 814
Legal News Library (LEGNEW) 809
Legal Reference Library (LEXREF) 809
Legal Resource Index 807
LegalTrac 807
LEXIS/NEXIS 809
Library of Congress Online Systems 815
Library of Congress Subject Headings 804
Los Angeles Times Index 810
Magazine Index Plus 807
Minneapolis Star and Tribune Index 810
Monthly Catalog of United States Government Publications 812
National Journal 814
National Newspaper Index 809
National Referral Center Resources File (NRCM) 822
National Technical Information Service (NTIS) 807
New York Times Index 809
News and Business Library (NEWS) 809
NEWSNET 811
Newsearch 809
Policy Research Center Directory 822

Public Affairs Information Service (PAIS) 807
Reader's Guide To Periodical Literature 807
Research Centers Directory 822
San Francisco Chronicle Index 810
Sears List of Subject Headings 804
Social Sciences Citation Index 808
Social Sciences Index 808
St. Louis Post-Dispatch Index 810
Statistical Abstract of the United States 814
Statistical Reference Index 814
Times-Picayune Index 810
Treaties in Force 813
United States Government Manual 822
University Microfilms International Indexes 809
USA Today Index 810
VUTEXT 811
Wall Street Journal Index 810
Washington Information Directory 822
Washington Post Index 810
Washington Times Index 810
Weekly Compilation of Presidential Documents 813
WilsonLine 811

HOW TO LOCATE REFERENCE SOURCES

BOOKS AND MONOGRAPHS

Many libraries around the country, particularly large academic and research libraries, use Library of Congress subject headings in their catalogs. To learn how books on U.S. policy toward China are categorized in these libraries, consult the four-volume guide, *Library of Congress Subject Headings*. It is usually kept near the card catalog, or near the terminals for an automated catalog. The most relevant LC subject headings for research on U.S. policy toward China are listed below:

General: China--Politics and government.
China--History.

Foreign policy: China--Foreign relations.

Trade policy: China--Commerce.
China--Economic conditions.
China--Economic policy.
China--Foreign economic relations.

These terms may also be used in searching the Library of Congress catalogs on Internet. Consult the section on Library of Congress Online Systems in the section of this guide on Internet.

In many school and public libraries, books are arranged by the Dewey Decimal classification system. In these libraries, books are usually assigned subject headings from the *Sears List of Subject Headings*, also generally found near the card catalog.

If you have trouble locating books that are listed here or in other bibliographic sources, ask your librarian about *Books in Print* and about interlibrary loan. *Books in Print* will be useful in identifying the addresses of publishers for the purchase of materials, and in identifying additional and recently published books. Look particularly under the term China. Interlibrary loan may make it possible for your library to borrow materials you have identified, but that your library does not have available, from other libraries.

ENCYCLOPEDIAS AND DIRECTORIES

ENCYCLOPEDIAS

Most libraries carry a selection of encyclopedias; these can be an excellent starting point in gathering basic background information on a topic. Subject headings vary from one publication to another; begin by checking the index volume(s) for basic keywords like China and foreign policy. Encyclopedia articles often have bibliographies appended, which can be used to locate additional information on the topic.

INFORMATION USA

This general purpose directory provides access to more than 12,000 agencies and organizations in the U.S.

DIRECTORY OF DIRECTORIES

This publication serves as a guide to the many catalogs, encyclopedias, checklists, and other compilations of information that exist in print. Any publication which includes addresses of individuals or organizations is eligible for inclusion in this resource. It lists a wide range of publications, including lists of cultural institutions, directories of professional organizations and societies, and membership lists of a variety of special interest groups. This resource can be used to locate more specialized directories of organizations and individuals involved in the field of U.S. policy toward China. Entries are grouped by subject categories, and the publication includes a title and a subject index.

AMERICAN LIBRARY DIRECTORY

Edited and compiled by R. R. Bowker, this directory lists public, academic, government and special libraries in the United States, and regions administered by it, and in Canada. Arranged geographically, the entries are alphabetized by state, region, or province; then by city; and finally by the institution or library name. Entries include the name and address of the library, names of key personnel and information on the library's holdings. In addition, most entries provide information on some or all of these additional areas: Income; Expenditures, including salaries; Subject interests; Special collections; Automation and publication.

JOURNAL ARTICLES

Citations to journal articles and other materials about U.S. policy toward China can be found in a number of printed indexes, online bibliographic databases, and CD-ROM products. The materials covered by selected printed indexes are briefly described here, along with recommended search terms for each.

Online bibliographic databases are useful for locating citations to journal articles and other materials quickly by using a computer terminal to search a machine readable file. The researcher may combine search terms in ways that are impossible in a printed index or library catalog, and may also simultaneously search material that would be contained in separate printed indexes covering several years. Many of the printed indexes described in this guide are also available as online databases.

Brief descriptions of some major online services providing access to bibliographic databases are provided. A reference librarian can advise you on the availability of computerized search services in your area; there is often a fee for the use of these services.

Many libraries now have CD-ROM products of printed indexes available for researchers. This technology enables a user to search materials available in printed and online indexes using a personal computer. Check with a reference librarian to determine if these products are available in your area.

ABC POL SCI (A Bibliography of Contents: Political Science & Government)

This is a guide to current periodical literature in the field of political science and government as well as in the related disciplines of sociology, law, and history. Started in 1969 and published five times a year, it reproduces edited tables of contents of about 300 international journals.

ACADEMIC INDEX

This index provides access to the 400 scholarly and general interest publications most commonly held by academic libraries, expanding on the coverage of its sister publication, *Magazine Index*. Subject coverage of the index includes economics, government, and political science. The *Academic Index* exists commercially as an online product, and there may be a fee for searching.

BUSINESS PERIODICALS INDEX

Articles from over 300 business periodicals are listed in this index. It is published monthly, except for August, and a bound cumulation is issued each year. A wide range of business publications, such as the *Economist* and *Barrons* are indexed here. Use Library of Congress subject headings to search, along with the cross-references provided in the index.

CURRENT LAW INDEX

The American Association of Law Libraries sponsors this index of articles in legal periodicals. Separate subject and author indexes and tables of cases and of statutes are included in eight monthly issues, three quarterly cumulations, and a cumulative annual. Library of Congress subject headings are the search terms used primarily.

INDEX TO LEGAL PERIODICALS

The *Index* lists articles "of high quality and permanent reference value" in legal periodicals published in the United States, Canada, Great Britain, and other English language countries. The articles are indexed under author and subject. A complete list of subjects is included at the front of each bound volume. The *Index* is also available on CD-ROM and is updated quarterly. Useful search terms are: Foreign relations and International trade.

BEST COPY AVAILABLE

INFOTRAC II

This CD-ROM product provides a subject index to more than 400 popular and widely-read magazines plus the New York Times. Its coverage includes current affairs, people, home and leisure activities, travel, arts and entertainment, education, companies and products.

LEGAL RESOURCE INDEX

Legal Resource Index is the companion microfilm service of the *Current Law Index*, above. It is available online commercially through the DIALOG Information Service as file 150.

LEGALTRAC

LegalTrac is an index on CD-ROM to more than 800 legal periodicals starting from 1980; it is updated monthly.

MAGAZINE INDEX PLUS

Magazine Index Plus is a microfilm product that provides citations to materials in over 400 of the periodicals most requested by small-to-average sized public and academic libraries. The focus is on coverage of current affairs, world affairs, business, and science and technology. References from the last five years are listed alphabetically by subject and author in one alphabetical display on the *Magazine Index Plus* microfilm reader-terminal. Its link to the full text *Magazine Collection* microfilm system provides identification of full text availability; optional full text on CD-ROM in *Magazine ASAP Plus* provides instant article retrieval. The index is updated monthly, and uses Library of Congress subject headings.

NATIONAL TECHNICAL INFORMATION SERVICE (NTIS)

This database is available commercially online. *NTIS* consists of Government-sponsored research, development, and engineering information prepared by Federal agencies, their contractors, or grantees. through this system, unclassified, publicly available reports from such agencies as the Defense Technical Information Center and others are made available. the database includes materials from both the hard and soft sciences, including materials on business procedures and regulatory matters.

PUBLIC AFFAIRS INFORMATION SERVICE (PAIS)

PAIS is a subject index of books, pamphlets, government publications, reports of public and private agencies, and periodical articles relating to political and economic conditions, public administration, and international affairs. It is issued monthly; there also three quarterly cumulations and an annual bound volume with an author index. This year's debate topic may be searched using the term, China, People's Republic of; also use the *PAIS* cross-references. *PAIS* is available on CD-ROM. The CD-ROM version of *PAIS* contains an online thesaurus.

READER'S GUIDE TO PERIODICAL LITERATURE

The *Reader's Guide* is an author/subject index to over 180 periodicals of general interest published in the United States and Canada. It is published twice a month from September through December and in March, April, and June. It appears monthly in January, February, May, July, and August. Library of Congress subject headings are used to organize materials. The quarterly and annual cumulations can expedite your search of this index. It is also available on CD-ROM and is updated quarterly.

SOCIAL SCIENCES CITATION INDEX

Social Sciences Citation Index, which covers hundreds of journals, is issued quarterly and annually. It differs from other indexes in that there are no standard subject headings; but you may search by topic by looking up key words from an article's title in its Permuterm Subject Index and referring to the Source Index for the full reference. The index is available online as DIALOG file 7 and is updated weekly. It is available on CD-ROM. This index is also useful in finding critiques or responses to identified articles.

SOCIAL SCIENCES INDEX

Social Sciences Index, published quarterly and cumulated annually, provides author and title access to 353 journals in area studies, economics, international relations, political science, and related areas. Use the Library of Congress subject headings listed previously.

NEWSPAPER ARTICLES

LEXIS/NEXIS

LEXIS/NEXIS is an online search and retrieval service with numerous subfiles of information. The News and Business Library (*NEWS*) contains more than 2,500 full-text information sources from U.S. and overseas newspapers, magazines, journals, newsletters, wire services, and broadcast transcripts; also included is abstract material from an addition 1,000 information sources. The Law Reviews Library (*LAWREV*) includes the full text of over 70 law reviews, several American Bar Association publications, ALR and LEd2d articles, and two legal indices, with a focus on State and national issues of legal significance. The Legal News Library (*LEGNEW*) provides general news information about the domestic legal industry and profession, including sources which track jury verdicts and a hot file of case list summaries on recently decided U.S. Supreme Court cases. The Legal Reference Library (*LEXREF*) includes abstracts from over 700 legal journals, yearbooks, institutes, bar associations, university publications, specialty journals, and legal journals. Ask a reference librarian if *LEXIS/NEXIS* is available in your area. There may be a fee for searches.

NATIONAL NEWSPAPER INDEX

National Newspaper Index indexes the *Christian Science Monitor*, *New York Times*, *Wall Street Journal*, *Los Angeles Times*, and *Washington Post*. References from the last five years are listed alphabetically by subject headings. An online version of this index is available commercially on DIALOG file 111 and is updated monthly.

NEW YORK TIMES INDEX

The *New York Times Index* provides extensive abstracts for articles appearing in the *New York Times*. It is issued twice a month, with quarterly and annual cumulations. Consult "How to use the New York Times Index" in the index volume itself for guidance.

NEWSSEARCH

Newssearch is the commercially available, daily update of *Magazine Index*, *National Newspaper Index*, and *Legal Resource Index*. It provides front-page to back-page indexing of the *Christian Science Monitor*, *Wall Street Journal*, and *New York Times*, as well as popular magazines, law journals, and legal newspapers. There may be a fee for searches.

UNIVERSITY MICROFILMS INTERNATIONAL INDEXES

UMI distributes The *New York Times Index* listed above. In addition, *UMI* publishes indexes to an number of other newspapers using search terms from its own list of subjects. In some cases *UMI* took over this service from another publisher, such as Bell & Howell or an in-house indexer. In these cases, the earlier volumes for these papers use different subject terms than the later volumes, so care should be taken when searching for earlier material. Newspapers indexed by *UMI* include the following:

Atlanta Journal, The Atlanta Constitution Index. FREQUENCY: Annual

Black Newspapers Index. 1st quarter 1987- FREQUENCY: Quarterly, with annual cumulation

Boston Globe Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

Christian Science Monitor Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

Denver Post Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

Detroit News Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

Guardian Index. Vol. 1 (Jan. 1986)- FREQUENCY: Monthly, with annual cumulation

Houston Chronicle Index. Jan. 1993- FREQUENCY: Monthly, with quarterly and annual cumulations

Houston Post Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

Los Angeles Times Index. Jan. 1984- FREQUENCY: Monthly, with annual cumulations

Minneapolis Star and Tribune Index. Jan. 1984- FREQUENCY: Monthly, with annual cumulations, 1985- Monthly, with semiannual and annual cumulations, 1984

San Francisco Chronicle Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

St. Louis Post-Dispatch Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

Times-Picayune Index. Jan. 1987- FREQUENCY: Monthly, with quarterly cumulations

USA Today Index. Jan. 1987- FREQUENCY: Monthly, with quarterly and annual cumulations

Washington Post Index. Jan. 1989- FREQUENCY: Monthly, with quarterly and annual cumulations

Washington Times Index. FREQUENCY: Monthly, with quarterly and annual cumulations

WALL STREET JOURNAL INDEX

The *Wall Street Journal Index* is issued monthly and has annual cumulations.

OTHER NEWSPAPER INDEXES

In addition, many newspapers are indexed locally; ask a librarian about indexes to your local newspaper.

ONLINE DATABASES

Many libraries now have access to computerized versions of printed indexes. The information is stored in databases that can be accessed through personal computers. The advantages of using these computerized databases are search speed and flexibility; the disadvantages are the often high costs charged for access. Check with your local reference librarian to determine availability and costs of the systems listed. Online systems are also included with the journal article and newspaper article sections of this Guide. There may be a fee for searches.

BRS

BRS is an online service providing primarily bibliographic information. The service offers access to information in the fields of science, social sciences, business, health and related areas. BRS provides databases that are online versions of *Magazine Index*, *PAIS*, *Reader's Guide*, *Current Law Index* (called Legal Resource Index), and *National Newspaper Index*. Specialized trade and business databases are also available.

DATATIMES

DATATIMES is an online search and retrieval service. This information network can access approximately 1100 sources, including newswires, newspapers, magazines, and a number of business and financial sources. Ask a reference librarian if *DATATIMES* is available at your institution. There may be a fee for *DATATIMES* searches.

DIALOG

DIALOG Information Service is an online service that includes a wide variety of databases, ranging from newspaper and journal indexes through statistical references and airline information.

NEWSNET

NEWSNET includes comprehensive bibliographic data on more than 380 newsletters and other news and information services.

VUTEXT

VUTEXT indexes local and regional newspapers for most of the major metropolitan areas in the United States.

WILSONLINE

The H. W. Wilson Company, which publishes the *Reader's Guide* to Periodical Literature, along with a number of other indexes to journal literature, has its own online service.

CD-ROM DATABASES

Some libraries have installed CD-ROM databases as an alternative to print and online indexes. CD-ROM is a technology that allows a great deal of information to be stored on a compact disk that can be read by a personal computer. A number of indexes are available in this format, allowing searching capabilities similar to those available with online services, but without the charge per hour. Consult with your local reference librarian to determine which databases may be available in your area.

DISSERTATIONS

Dissertation Abstracts International (DAI) is a monthly list of doctoral dissertations submitted to University Microfilms International by more than 450 academic institutions in the United States and Canada. DAI is divided into two sections: Humanities (A) and Science (B). Keyword title and author indexes are provided each month for each section. The author index is cumulated annually. A retrospective *Comprehensive Dissertation Index* (CDI) is a subject index and is available, grouped by disciplines of knowledge (e.g., law and political science, history) for 1861-1972 in 32 volumes, and for 1973-1979 in 16 volumes. DAI is commercially available online as DIALOG file 35 and is updated monthly. It is also available on CD-ROM and is updated biannually.

GOVERNMENT PUBLICATIONS

FEDERAL DEPOSITORY LIBRARY PROGRAM

Under this program, Federal Government publications are made available to designated depository libraries. In order to provide the greatest possible access to Government publications, these libraries are located in each State and congressional district. There are currently over 1,350 depository libraries. Of this number, 50 have been designated as regional depositories. The regional libraries assume the responsibility of retaining depository material permanently and of providing inter-library loan and reference service for their regions. Copies of documents no longer available for sale can usually be found in regional Federal depository library collections. Each issue of the *Monthly Catalog of United States Government Publications* (see below) prints a current directory of these regional libraries. A directory of all depository libraries is available from: Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

GOVERNMENT REPORTS ANNOUNCEMENTS AND INDEX

Government research reports are indexed in the *Government Reports Announcements and Index*, which is issued twice a month by the National Technical Information Service (NTIS). A keyword index lists significant words from titles. The *NTIS* index is available online through commercial systems.

MONTHLY CATALOG OF UNITED STATES GOVERNMENT PUBLICATIONS

The *Monthly Catalog* lists documents issued by all branches of the Federal Government. The catalog has monthly, semiannual, and annual indexes, arranged by author, title, subject, keywords, and series/report title. The *Monthly Catalog* is often the access point for materials in Government depository libraries; it may also be used to obtain information for ordering materials for purchase from the Superintendent of Documents at the U.S. Government Printing Office. The *Monthly Catalog* is commercially available online on DIALOG file 66 and is updated monthly. Library of Congress subject headings are the catalog's subject authority. See search terms under *MONOGRAPHS* in this guide. There is also a *Periodicals Supplement* to the monthly catalog which contains current serial titles for Government publications issued three or more times a year.

Treaties in Force: A list of treaties and other international agreements of the United States in force on January 1, 1994

This publication, which is compiled by the Treaty Affairs Staff, Office of the Legal Adviser, U.S. Dept. of State, "lists treaties and other international agreements of the United States on record in the Department of State on January 1, 1994 which had not expired by their terms or which had not been denounced by the parties, or replaced or superseded by other agreements, or otherwise definitely terminated."

Weekly Compilation of Presidential Documents

This publication contains statements, messages, and other Presidential materials released by the White House during the preceding week. There are weekly, quarterly, and annual published indexes. This information is also available online commercially. Public Papers of the Presidents of the United States is an annual compilation of Presidential Statements.

LEGISLATIVE INFORMATION

Congressional and executive department activities on U.S. policy regarding China may be monitored by searching the following printed publications:

Congressional Quarterly Weekly Report

This periodical provides current information on congressional activities, the progress of major bills, and background information on major policy issues. Recent articles of particular importance are indexed on the back cover of each issue. Important recent articles are indexed on the back cover of each issue. A quarterly and annual index are also issued.

Congressional Quarterly also publishes an annual volume which cumulates material from the weekly reports. There is an index at the back of each volume, which uses similar subject headings.

Congressional Record

The *Congressional Record* provides an edited transcript of the activities on the floor of the House and the Senate. It is published each day Congress is in session. The Extensions of Remarks section may provide reprints of newspaper and journal articles which Members of Congress insert, in addition to those statements spoken by Members on the floor of the House or Senate and recorded by chamber. Subject and name indexes are published biweekly and cumulated annually. Search under such topics as: China, People's Republic of; Foreign policy and Foreign trade.

CIS Index

The *CIS Index*, produced by the Congressional Information Service, abstracts all congressional publications except the *Congressional Record*. The *Index* is published monthly, and cumulated quarterly and annually. Each issue of the *Index* is divided into both index and abstract portions. CIS also publishes legislative histories annually. Refer to the abstract section for full bibliographic information. The *Index* is commercially available online as DIALOG file 101 and is updated monthly.

Congressional Index

The *Congressional Index*, published by the Commerce Clearing House, is a weekly looseleaf service providing content and status information for bills and resolutions pending in Congress. The progress of bills and resolutions is reported, from the introduction of the legislation to the final disposition.

NATIONAL JOURNAL

National Journal provides information on important executive, congressional, and judicial actions. In addition to the weekly and semi-apnnual indexes, there is a page entitled "Recent Weeks" toward the end of most issues.

STATISTICAL SOURCES

AMERICAN STATISTICS INDEX (ASI)

The *American Statistics Index* indexes and describes the statistical publications of the U.S. Government, including periodicals, annuals, biennials, semi-annuals, and special publications. It provides access to statistical materials by subject, organization, name, issuing source, and title. The index is published monthly and cumulated annually. *ASI* is also available through commercial online systems.

STATISTICAL ABSTRACT OF THE UNITED STATES: NATIONAL DATA BOOK AND GUIDE TO SOURCES

Published by the U.S. Department of Commerce, Bureau of the Census, on an annual basis, this source includes pertinent statistical information under the subjects Foreign countries and Foreign trade. This publication should be available in any depository library, as well as in the reference collections of most large public or academic libraries.

STATISTICAL REFERENCE INDEX

The *Statistical Reference Index* provides a guide and index to selected statistical reference material from non-Federal sources on a wide variety of topics. It includes the publications of trade, professional, and other non-profit associations and institutions, business organizations, commercial publishers, university and independent research centers, and State government agencies. Information can be accessed by subject, organization, name, issuing source, and/or title. The index is published monthly and cumulated annually.

INTERNET RESOURCES

The Library of Congress provides Internet access to its campus-wide information system, LC MARVEL (Machine-Assisted Realization of the Virtual Electronic Library), based on Gopher software from the University of Minnesota. LC MARVEL provides links to a vast and diverse collection of Internet resources worldwide, all arranged in an easy-to-navigate hierarchical menu structure. Most information on MARVEL is available in plain text (ASCII format).

Access to LC MARVEL is provided by direct telnet to **marvel.loc.gov.** Login as **marvel.** Direct telnet provides the user access to MARVEL through a courtesy gopher client on the MARVEL server; however, access is limited to 15 simultaneous sign-ons. *The preferred method of access is through a local gopher client or via another gopher server pointing to **marvel.loc.gov**, port 70 (the 15-port user limit does not apply to this access method).*

The MARVEL main menu is organized into 13 major areas; the most useful areas for doing research on China are described below. What follows are some sample menu choices that should lead to useful sources of data on the debate topic.

Library of Congress Online Systems

- —> 5. Connect to LOCIS (Public Users - No Password Needed) <TEL>
  - —> 1. Library of Congress Catalog
    - —> 1. Books FILE: LOCI
    - —> 2. Books earlier than 1 FILE: PREM
    - —> 3. Combine files 1 and 2 above FILE: LOCI & PREM
  - —> 3. Federal Legislation
  - —> 5. Organizations

Government Information

- —> 1. Federal Information Resources
  - —> 1. Information By Agency
    - —> 3. Foreign Government Information (Non-U.S.)
      - —> 4. International Government Information

Global Electronic Library (by Subject)

- —> 7. Social Sciences
  - —> 7. Guides to Political Science Resources on the Internet

Internet Resources

- —> 12. Veronica and Jughead Servers (search gopherspace)
  - —> 10-14. Search Gopherspace by subject

REFERENCE MATERIALS

American diplomatic and public papers, the United States and China: Series 2, the United States, China, and imperial rivalries, 1861-1893. Edited by Jules Davids. Wilmington, Del., Scholary Resources, 1979. 18 v. E183.8.C5 A72

American diplomatic and public papers--the United States and China: series III, the Sino-Japanese War to the Russo-Japanese War, 1894-1905. Edited by Jules Davids. Wilmington, Del., Scholarly Resources, 1981. 14 v. E183.8.C5 A723

Army Library (U.S.)
Communist China: a bibliographic survey. Washington [For sale by the Supt. of Docs., G.P.O.] 1971. 253 p. Z3108.A5 U5 1971
Published in 1978 under title: China, an analytical survey of literature.
"DA pamphlet 550-9."

Bartke, Wolfgang.
The agreements of the People's Republic of China with foreign countries, 1949-1990. 2nd, rev. and enl. ed. New York, Saur, 1992. 231 p. JX926 1992a
"A publication of the Institute of Asian Affairs, Hamburg."

The Cambridge history of China. General editors, Denis Twitchett and John K. Fairbank. Cambridge [Eng.]; New York, Cambridge University Press, 1978- <1991 > v. <1, 3, 6-7, 10-15 > DS735 .C3145

Carnegie Endowment for International Peace. Division of International Law.
Treaties and agreements with and concerning China, 1919-1929. Westport, Conn., Hyperion Press, 1977, [c1929] 282 p. (China studies (Westport, Conn.)) JX926 1977 .C37 1977
Reprint of the ed. published by Carnegie Endowment for International Peace, Washington, which was issued as Pamphlet series no. 50 of the Carnegie Endowment for International Peace, Division of International Law.
A continuation of Treaties and agreements with and concerning China, 1894-1919, edited by John Van Antwerp MacMurray.
"Supplemental list of documents not printed in the pamphlet": p. xi-xiv.

Catchpole, Brian.
A map history of modern China. London, Heinemann Educational, 1976. [5] 145 p. DS736 .C23

Chatterjee, Bijan Raj.
Modern China; a short history. Meerut, Meenakshi Prakashan [1969] 188 p. DS764 .C49

China (People's Republic of China, 1949-). Treaties, etc.
Treaties of the People's Republic of China, 1949-1978: an annotated compilation. Compiled by Grant F. Rhode and Reid E. Whitlock. Boulder, Colo., Westview Press, 1980. 207 p. (Westview special studies on China and East Asia) JX926 1980 .C47

China: a nation in transition. Edited by Debra E. Soled. Washington, Congressional Quarterly, 1995.
This work should be available later in 1995.

China and the three worlds: a foreign policy reader. Edited by King C. Chen. White Plains, N.Y., M. E. Sharpe, c1979. 383 p. DS777.55 .C446736

China at the crossroads. Edited by Donald Altschiller. New York, H.W. Wilson Co., 1994. (Reference shelf v. 66, no. 3)
This work should be available later in 1995.

China briefing, 1994. Edited by William A. Joseph; Deborah Field Washburn, series editor. Boulder, Colo., Westview Press, 1994. 235 p. DS779.2 .C442 1994

China documents annual 1989. The crisis of reform. Edited by Peter R. Moody, Jr. Gulf Breeze, FL, Academic International Press, 1992. 468 p. DS779.17 .C45 1992

The China reader, edited, annotated, and with introductions by Franz Schurmann and [others]. New York, Random House [1967-74] 4 v. DS735 .C5114

Contents: 1. Imperial China: the decline of the last dynasty and the origins of modern China; the 18th and 19th centuries. 2. Republican China: nationalism, war, and the rise of Communism; 1911-1949. 3. Communist China: revolutionary reconstruction and international confrontation; 1949 to the present. 4. People's China: social experimentation, politics, entry onto the world scene, 1966 through 1972.

Vol. 4 compiled by D. Milton, N. Milton, and F. Schurmann.

Chinese civilization and society: a sourcebook. Edited by Patricia Buckley Ebrey. New York, Free Press, c1981. 429 p. DS721 .C517

Chinese studies in American history. Edited by Chi Wang. [Armonk, N.Y., M.E. Sharpe, c1983] 203 p. (Chinese studies in history, 0009-4633; v. 16, no. 1-2 (Fall-Winter 1982-1983)) DS701 .C72 vol. 16, no. 1-2

Contents.--Some questions regarding the study of the history of Sino-American relations and U.S. history, by Luo Rongqu.--The primitive society of the North American Indians is not U.S. ancient history.--Reasons for the victory of the North American War of Independence, by Liu Zuochang.--The origin and true nature of the Monroe Doctrine, by Luo Rongqu -- The Lincoln of the American Civil War, by Huo Guangshan and Guo Ningda -- On the "Open Door" policy, by Xiang Rong -- An evaluation of Roosevelt's "New Deal", by Deng Shusheng -- Concerning the appeasement policy of the United States on the eve of World War II, by Feng Chengpo.

Collection of 8 articles on the study of the American history, selected from various Chinese periodicals and translated into English.

Choudhury, G. W.

China in world affairs: the foreign policy of the PRC since 1970. Boulder, Colo., Westview Press, 1982. 310 p. DS777.8 .C47 1982

Cohen, Paul A.

Discovering history in China: American historical writing on the recent Chinese past. New York, Columbia University Press, 1984. 243 p. (Studies of the East Asian Institute) DS755 .C63 1984

Crook, Frederick W.

Agricultural statistics of the People's Republic of China, 1949-86. Washington, U.S. Dept. of Agriculture, Economic Research Service, 1988. 158 p. (Statistical bulletin no. 764)

"The 126 tables containing agricultural statistics for the People's Republic of China report land use; population; procurement prices; crop production; area, and yield; agricultural product output; livestock inventory and slaughter; animal product output; input availability; quantity and value of imports and exports of selected commodities; and consumption of agricultural products. Data are presented for both the national and provincial levels."

Dietrich, Craig.

People's China: a brief history. 2nd ed. New York. Oxford University Press, 1994. 362 p. DS777.55 .D52 1994

Dillon, Michael, Dr.

Dictionary of Chinese history. London, F. Cass, 1979. 239 p. DS733 .D54 1979

Dirlik, Arif.

The origins of Chinese Communism. New York, Oxford University Press, 1989. 315 p. HX416.5 .D57 1989

Fairbank, John King. Reischauer, Edwin O.

China: tradition & transformation. Rev. ed. Boston, Houghton Mifflin Co., c1989. 551 p. DS735 .F28 1989

Fairbank, John King.
China: a new history. Cambridge, Mass., Belknap Press of Harvard University Press, 1992. 519 p. DS735 .F27 1992

———
China watch. Cambridge, Mass., Harvard University Press, 1987. 219 p. DS777.55 .F25 1987

———
Chinese-American interactions: a historical summary. New Brunswick, N.J., Rutgers University Press [1975] 90 p. (The Brown & Haley lectures; 1974) E183.8.C5 F29

———
The great Chinese revolution, 1800-1985. New York, Harper & Row, c1986. 396 p. DS755 .F29 1986

———
The United States and China. 4th ed., enl. Cambridge, Mass., Harvard University Press, 1983. 632 p. (American foreign policy library.) DS735 .F3 1983

Fitzgerald, C. P.
Revolution in China. Boulder [Colo.], Westview Press, 1985. 289 p. DS774 .F58 1985

Goehlert, Robert.
United States-China relations: a selected bibliography. Monticello, Ill., Vance Bibliographies, [1988] 15 p. (Public administration series--bibliography, 0193-970X; P 2536) Z6465.U5 G65 1988

Herold, Ken.
Tibet and the United States of America: an annotated chronology of relations in the 20th century. San Francisco, CA, International Committee of Lawyers for Tibet, [1993] 82 p. E183.8.T55 H47 1993

Historical dictionary of revolutionary China, 1839-1976. Edited by Edwin Pak-wah Leung. New York, Greenwood Press, 1992. 566 p. DS740.2 .H57 1992

Hsiung, James Chieh.
Law and policy in China's foreign relations; a study of attitudes and practice. New York, Columbia University Press, 1972. 435 p. JX1570 .H68

Hsu, Immanuel Chung-yueh.
The rise of modern China = [Chung-kuo chin tai shih]. 4th ed. New York, Oxford University Press, 1990. 971 p. DS754 .H74 1990
Parallel title in Chinese characters.
A 1995 edition of this work is forthcoming.

Johnson, Constance A.
Chinese law: a bibliography of selected English-language materials. Washington, Law Library of Congress, Far Eastern Law Division, 1990. 138 p.
"LL90-84"
"This bibliography of materials in English on the laws of the People's Republic of China covers the period from the middle of 1985 through the middle of 1989."

Khu, Josephine M. T.
Selected bibliography of English-language materials on the law of the People's Republic of China. Columbia journal of transnational law, v. 28, no. 2, 1990: 531-575.
"This collection of legal materials on the law of the People's Republic of China focuses on articles published in Western journals from 1985 onwards."

Lawrance, Alan.
China's foreign relations since 1949. Boston, Routledge & K. Paul, 1975. 261 p. (The World studies series) DS740.4 .L34

Li, Tien-yi.
Woodrow Wilson's China policy, 1913-1917. New York, Octagon Books 1969 [c1952]
268 p. E183.8.C5 L48 1969
Based on the author's thesis, Yale.

Mackerras, Colin.
Modern China: a chronology from 1842 to the present. London, Thames and Hudson,
c1982. 703 p. DS755 .M2 1982b

May, Ernest R.
The Truman administration and China, 1945-1949. Philadelphia, Lippincott [1975]
112 p. (The America's alternatives series) E183.8.C5 M38

Mayers, William Frederick.
The Chinese reader's manual; a handbook of biographical, historical, mythological, and
general literary reference. Shanghai, American Presbyterian Mission Press, 1910.
Detroit, Gale Research Co., 1968. 444 p. DS733 .M3 1968
The 1910 ed. was a reprint of the 1874 ed.

Meyer, Milton Walter.
China: a concise history. 2nd ed., rev. Lanham, Md., Rowman & Littlefield Publishers,
c1994. 354 p. DS736 .M44 1994

MacNair, Harley Farnsworth.
Modern Chinese history, selected readings; a collection of extracts from various sources
chosen to illustrate some of the chief phases of China's international relations during
the past hundred years. New York, Paragon Book Reprint Corp., 1967. 910 p.
DS740.2 .M3 1967

Pan, Lynn.
Sons of the yellow emperor: a history of the Chinese diaspora. Boston, Little, Brown,
c1990. 408 p. DS732 .P36 1990
An updated version of this work is forthcoming in 1995.

The People's Republic of China, 1949-1979: a documentary survey. Edited by Harold C.
Hinton. Wilmington, Del., Scholarly Resources, 1980. 5 v. (2994 p.)
DS777.55 .P4243
Contents.--v. 1. 1949-1957, From liberation to crisis.--v. 2. 1957-1965, The Great
Leap Forward and its aftermath.--v. 3. 1965-1967, The Cultural Revolution, part I.--
v. 4. 1967-1970, The Cultural Revolution, part II.--v. 5. 1971-1979, After the Cultural
Revolution.

Round Table Discussion on American Policy toward China, Washington, 1949.
Transcript of [proceedings. Washington, Dept. of State, Division of Central Services]
1949. 514 p. E183.8.C5 R6 1949
Held in the Dept. of State, Oct. 6, 7 and 8, 1949.

Stoessinger, John George.
Nations at dawn--China, Russia, and America. 6th ed. New York, McGraw-Hill,
c1994. 333 p. E183.8.C5 S84 1994
This work is a revision of: Nations in darkness--China, Russia, and America.

Tucker, Nancy Bernkopf.
Patterns in the dust: Chinese-American relations and the recognition controversy,
1949-1950. New York. Columbia University Press, 1983. 396 p. (Contemporary
American history series) E183.8.C5 T836 1983

United Nations Association of the United States of America. National Policy Panel on
China, the United Nations, and United States Policy.
China, the United Nations, and United States policy; an analysis of the issues and
principal alternatives with recommendations for U.S. policy. [New York, United
Nations Association of the United States of America, 1966] 64 p. E183.8.C5 U45

China, the United Nations and United States policy; an updating of the issues with recommendations for U.S. policy. [Second report. New York, United Nations Association of the United States of America, 1967] 55 p. E183.8.C5 U452

U.S. policy toward China, July 15, 1971-January 15, 1979. [Washington], Dept. of State, Bureau of Public Affairs, Office of Public Communication, 1979. 64 p. (Department of State publication; 8967. East Asian and Pacific series; 216. Selected documents; no. 9) E183.8.C5 U63

Valone, Stephen J.

"A policy calculated to benefit China": the United States and the China arms embargo, 1919-1929. New York, Greenwood Press, 1991. 155 p. (Contributions to the study of world history, 0885-9159; no. 25) E183.8.C5 V27 1991

Yeh, Thomas Y.

Government publications of the People's Republic of China. Government publications review, v. 14, Aug.-Sept. 1987: 405-410.

"China has had a long history of government printing and publishing. The People's Republic of China (PRC) carries this tradition one step further by controlling all aspects of printing and publishing."

SELECTED PERIODICALS

Magazines and Journals on General Topics
(Including Foreign Relations)

Challenge
Economist
Fletcher Forum
Foreign Affairs
Foreign Policy
Global Affairs
Harvard International Review
Index: Foreign Broadcast Service Daily Report: People's Republic of China
Insight (Washington Times)
International Affairs
International Quarterly
Orbis
Newsweek
Policy Review
Times
U.S. News & World Report
Washington Quarterly

Magazines and Journals on China

Asian Law Journal
Asian Survey
Asian Wall Street Journal
China and Pacific Rim Letter
China Briefing
China Daily (North American Edition)
China Focus
China Quarterly
China Review
China Today
Free China Review
Issues and Studies
Journal of Human Rights in China
Social Science in China

Magazines and Journals on Trade With China

Asia-Pacific Agribusiness Report
Asian Finance
Barrons
Brookings Review
Business Horizons
Business Week
China Agribusiness Report
China Business & Trade
China Economic Review
China Laws for Foreign Business
China Outlook Report
China Trade
Forbes
International Economy
Journal of World Trade

This list is just a starting point. By consulting sources listed elsewhere in this directory, you will be lead to many journals and sources of information on this year's debate topic.

AGENCIES AND ORGANIZATIONS

There are numerous public policy-oriented organizations with an interest in U.S. policy toward China. The list which follows is a selection of some of the many available guides to agencies and organizations. An additional place to search is the Library of Congress's *National Referral Center Resources File (NRCM)*, which contains over 12,000 descriptions of organizations qualified and willing to answer questions and provide information on many topics. The *NCRM* is available on the Internet through *LC MARVEL*. Consult the description of LIBRARY OF CONGRESS ONLINE SYSTEMS in the section on INTERNET RESOURCES.

DIRECTORIES TO AGENCIES AND ORGANIZATIONS

Clearinghouse Directory, 1991-92. 1st ed. Donna, Batten, editor. Detroit, Gale Research Co., 1991. 429 p.
"A guide to information clearinghouses and their resources, services, and publications."

Encyclopedia of Associations, 1995. 29th ed. Detroit, Gale Research Co., 1994. 3 v.
Vols. 1-2. National organizations of the U.S.--Vol. 3. Name and key word index.
Available online as DIALOG file 114. Available on CD-ROM, Gale Global access: Associations.

Encyclopedia of Governmental Advisory Organizations, 1994-95. 9th ed. Detroit, Gale Research Co., 1993. 1529 p.
"A reference guide to 6,500 permanent, continuing, and ad hoc U.S. Presidential advisory committees, congressional advisory committees, . . . and similar bodies."

Government Research Directory, 1993-1994. 7th ed. Thomas J. Cichonski, editor. Detriot, Gale Research Co., 1992. 1252 p.

Policy Research Center Directory. Urbana, Policy Studies Organization, University of Illinois.
"A directory describing university and non-university centers, institutes, or organizations that conduct policy studies research.

Research Centers Directory, 1995. Thomas J. Cichonski. editor. Detroit, Gale Research Co., 1994. 2 v.
A guide to university-related and other nonprofit research organizations established on a permanent basis and carrying on continuing research programs in agriculture, business, conservation, education, engineering and technology, government, law, life sciences, mathematics, area studies, physical and earth sciences, social sciences, and humanities.

United States Government Manual, 1993/1994. Prepared by the U.S. Office of the Federal Register. Washington, G.P.O., 1993. 932 p.
Issued annually, this is the official organization handbook of the Federal Government, giving information on the organization, activities, and current officials of the various departments, bureaus, commissions, etc. Includes descriptions of quasi-official agencies and selected international organizations.

Washington Information Directory, Washington, Congressional Quarterly, 1975/6-
Provides information on agencies and departments of the Federal Government as well as information on non-governmental organizations. The directory is divided into three categories, the executive agencies, Congress, and non-governmental organizations. Each subject heading includes references to all three types of organizations.

Federal Government Agencies

The following is a list of some Federal agencies which may be able to provide materials on U.S. policy toward the People's Republic of China. Sources listed under Directories to Agencies and Organizations will provide additional information about these agencies and organizations.

U.S. Department of State
Office of Public Information
Washington, DC 20520

U.S. Mission to the United Nations
799 United Nations Plaza
New York, NY 10017

Office of the U.S. Trade Representative
China Office
600 17th Street NW
Washington, DC 20506

U.S. Department of Commerce
14th Street and Constitution Avenue NW
Office of Public Information
Washington, DC 20230

U.S. Department of Defense
Office of the Assistant to the Secretary of Defense (Public Affairs)
Directorate for Public Communications
Room 1E794
1400 Defense - Pentagon
Washington, DC 20301-1400

Subject Bibliography

U.S. Government Printing Office Superintendent of Document

SB-043

HIGH SCHOOL DEBATE TOPIC, 1995-1996

China: What Should be the Policy of the United States Government Toward the People's Republic of China?

* * * * * * * * * * * * * * * * * * * *

China: A Country Study. *Describes and analyzes the economic, national security, political, and social systems of the People's Republic of China. Includes a chronology from 1921-1987, a bibliography, a glossary, and an index.* 1988: 784 p.; ill. (Clothbound)
D 101.22:550-60/988 S/N 008-020-01159-2 $27.00

China, Background Notes, August 1993. *Includes information on the land, people, history, government, political conditions, economy, and foreign relations of the People's Republic of China. Issued with perforations.* 1993: 17 p.; ill.
S 1.123:C 44/993 S/N 844-002-10436-0 1.00

China Business Guide. *Provides information on the Chinese economy, business operations, trade regulation, taxation, and foreign investment for American companies who want to do business in China. Includes sections on: the Hong Kong-China connection; Marketing to China; Key China trade contacts; and Chinese offices in the United States.* 1994: 58 p.; ill.
C 61.8:C 44 S/N 003-009-00637-6 4.00

China, Foreign Labor Trends, 1992-1993. *Covers significant labor developments in the People's Republic of China.* 1993: 22 p.
L 29.16:C 44/992-93 S/N 829-003-00372-3 2.00

China: International Agriculture and Trade Reports, August 1994. 1994.
A 93.29/2-11:994 S/N 701-052-00063-3 7.50

Chinese at the Negotiating Table: Style and Characteristics. *Examines the process of negotiating with the Chinese, using historical examples and analyses of cases from 1953 to the present. Includes endnotes, a bibliography, and an index.* 1994: 315 p.
S/N 008-020-01255-6 12.00

Country Reports on Human Rights Practices for 1994, Report, February 1995. *Contains reports on human rights practices of all nations that are members of the United Nations and a few countries that are not. Also referred to as the Annual Report on Human Rights Practices Worldwide.* 1995: 1304 p.
S/N 052-070-06991-1 41.00

Explaining and Influencing Chinese Arms Transfers. 1995: 69 p.
S/N 008-020-01355-2 3.25

International Business Practices. *Provides information on business practices in the countries of North and South America, Europe, Asia and the Pacific Rim, the Middle East, and Sub-Saharan Africa. Covers: business organizations; exporting; commercial policies; foreign investment; intellectual property rights; taxation; regulatory agencies; and useful contacts.* 1993:
303 p. C 1.2:B 96/9 S/N 003-009-00622-8 18.00

Light Metals Industry of China. *Examines the past, present, and future development of China's aluminum, magnesium, and titanium industries. Gives names of companies in English and Chinese.*
1994: 49 p.; ill.
S/N 024-004-02369-4 $ 3.50

Strategic Assessment, 1995: United States Security Challenges in Transition. *Provides a comprehensive overview of the global environment, focusing on specific trends, United States interests, and issues of concern to those who frame United States security policy. Includes chapters on: Strategic setting; Asia Pacific; Europe; Russia and neighbors; Greater Middle East; Western Hemisphere; Sub-Saharan Africa; Oceans and the law; Weapons of mass destruction; United States force structure; Arms transfers and export controls; Information technologies; Peace operations; Transnational trends; Trends in the sovereign state; and Economics.*
1995: 215 p.; ill.
S/N 008-020-01342-1 19.00

Treaties and Other International Acts Series:

Aviation, Technical Assistance, Memorandum of Agreement Between the United States of America and the People's Republic of China Signed at Washington March 14, 1986; Entered Into Force March 14, 1986. *Text in English and Chinese.* 1995: 20 p.
S/N 844-001-01641-3 1.00

Fisheries Off the United States Coasts, Agreement Between the United States of America and the People's Republic of China Signed at Washington July 23, 1985, and Amending Agreement Effected by Exchange of Notes Signed at Washington July 24, and August 6, 1987; Entered Into Force August 6, 1987. *Text in English and Chinese.* 1995: 44 p.
S/N 844-001-01637-5 1.75

United States Participation in the United Nations Report by the President to the Congress for the Year 1993. *Includes sections on: political affairs; disarmament and arms control; economic and development affairs; social and humanitarian issues; human rights and fundamental freedoms; science, technology, and research; trusteeship and dependent areas; legal developments; administration and budget; and specialized agencies and the International Atomic Energy Agency (IAEA).* 1994: 348 p.
S 1.70/8:993 S/N 044-000-02404-7 13.00

* *

Where to Order	Superintendent of Documents P.O. Box 371954 Pittsburgh, PA 15250-7954
How to Remit	Regulations require payment in advance of shipment. Check or money order should be made payable to the Superintendent of Documents. Orders may also be charged to your Superintendent of Documents prepaid deposit account with this Office, MasterCard or VISA. If credit card is used, please be sure to include its date of expiration. Postage stamps are not acceptable.
Please Note	Supplies of government documents are limited and prices are subject to change without prior notice.